IDAHO POWER CO
Form 10-K
March 01, 2007

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K

(Mark One)

X ANNUAL REPORT PURSUANT TO SECTION 13 OR 15 (d) OF
THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2006
OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from ..... to .....

Commission File Number	Exact name of registrants as specified in their charters, address of principal executive offices, zip code and telephone number	IRS Employer Identification Number
1-14465	**IDACORP, Inc.**	82-0505802
1-3198	**Idaho Power Company**	82-0130980
	1221 W. Idaho Street Boise, ID 83702-5627 (208) 388-2200	
	State of incorporation: Idaho	
	Websites: www.idacorpinc.com and www.idahopower.com	

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:		Name of exchange on which registered
IDACORP, Inc.:	Common Stock, without par value Preferred Share Purchase Rights	New York
SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:		
Idaho Power Company:	Preferred Stock	

Indicate by check mark whether the registrants are well-known seasoned issuers, as defined in Rule 405 of the Securities Act.

IDACORP, Inc. Yes ( ) No (X) Idaho Power Company Yes ( ) No (X)

Indicate by check mark if the registrants are not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

IDACORP, Inc. Yes ( ) No (X) Idaho Power Company Yes ( ) No (X)
Indicate by check mark whether the registrants (1) have filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrants were required to file such reports), and (2) have been subject to such filing requirements for the past 90 days.
Yes (X) No ( )

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrants' knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. (X)

Indicate by check mark whether the registrants are large accelerated filers, accelerated filers, or non-accelerated filers.

IDACORP, Inc.:
Large accelerated filer (X) Accelerated filer ( ) Non-accelerated filer ( )
Idaho Power Company:
Large accelerated filer ( ) Accelerated filer ( ) Non-accelerated filer (X)
Indicate by check mark whether the registrants are shell companies (as defined in Rule 12b-2 of the Act).

IDACORP, Inc. Yes ( ) No (X) Idaho Power Company Yes ( ) No (X)
Aggregate market value of voting and non-voting common stock held by nonaffiliates (June 30, 2006):

IDACORP, Inc.: $1,468,190,938 Idaho Power Company: None

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Number of shares of common stock outstanding at January 31, 2007:

IDACORP, Inc.:	43,635,183
Idaho Power Company:	39,150,812 all held by IDACORP, Inc.

Documents Incorporated by Reference:

Part III, Items 10 - 14	Portions of IDACORP, Inc.'s definitive proxy statement to be filed pursuant to Regulation 14A for the 2007 Annual Meeting of Shareholders to be held on May 17, 2007.

This combined Form 10-K represents separate filings by IDACORP, Inc. and Idaho Power Company. Information contained herein relating to an individual registrant is filed by that registrant on its own behalf. Idaho Power Company makes no representation as to the information relating to IDACORP, Inc.'s other operations.

Idaho Power Company meets the conditions set forth in General Instruction (I)(1)(a) and (b) of Form 10-K and is therefore filing this Form with the reduced disclosure format.

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COMMONLY USED TERMS

AFDC	-	Allowance for Funds Used During Construction
ARO	-	Asset Retirement Obligation
Cal ISO	-	California Independent System Operator
CalPX	-	California Power Exchange
cfs	-	Cubic feet per second
CSPP	-	Cogeneration and Small Power Production
Energy Act	-	Energy Policy Act of 2005
EPS	-	Earnings per share
ESA	-	Endangered Species Act
FASB	-	Financial Accounting Standards Board
FERC	-	Federal Energy Regulatory Commission
FIN	-	Financial Accounting Standards Board Interpretation
Fitch	-	Fitch, Inc.
FPA	-	Federal Power Act
FSP	-	Financial Accounting Standards Board Staff Position
GAAP	-	Generally Accepted Accounting Principles
Ida-West	-	Ida-West Energy, a subsidiary of IDACORP, Inc.
IE	-	IDACORP Energy, a subsidiary of IDACORP, Inc.
IFS	-	IDACORP Financial Services, a subsidiary of IDACORP, Inc.
IPC	-	Idaho Power Company, a subsidiary of IDACORP, Inc.
IPUC	-	Idaho Public Utilities Commission
IRP	-	Integrated Resource Plan
ITI	-	IDACORP Technologies, Inc.
kW	-	Kilowatt
maf	-	Million acre feet
MD&A	-	Management's Discussion and Analysis of Financial Condition and Results of Operations
Moody's	-	Moody's Investors Service
MW	-	Megawatt
MWh	-	Megawatt-hour
NEPA	-	National Environmental Policy Act of 1996
O&M	-	Operations and Maintenance
OPUC	-	Oregon Public Utility Commission
PCA	-	Power Cost Adjustment
PM&E	-	Protection, Mitigation and Enhancement
PURPA	-	Public Utility Regulatory Policies Act of 1978
RFP	-	Request for Proposal
RTO	-	Regional Transmission Organization
S&P	-	Standard & Poor's Ratings Services
SFAS	-	Statement of Financial Accounting Standards
SO_2	-	Sulfur Dioxide
Valmy	-	North Valmy Steam Electric Generating Plant
VIEs	-	Variable Interest Entities

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*Except as indicated in Item 12, IDACORP, Inc. information is incorporated by reference to IDACORP, Inc.'s definitive proxy statement for the 2007 Annual Meeting of Shareholders.

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SAFE HARBOR STATEMENT

This Form 10-K contains "forward-looking statements" intended to qualify for the safe harbor from liability established by the Private Securities Litigation Reform Act of 1995. Forward-looking statements should be read with the cautionary statements and important factors included in this Form 10-K at Part II, Item 7- "Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) - FORWARD-LOOKING INFORMATION." Forward-looking statements are all statements other than statements of historical fact, including without limitation those that are identified by the use of the words "anticipates," "believes," "estimates," "expects," "intends," "plans," "predicts," "projects," "may result," "may continue," or similar expressions.

PART I - IDACORP, Inc. and Idaho Power Company

ITEM 1. BUSINESS

OVERVIEW:

IDACORP, Inc. (IDACORP) is a holding company formed in 1998 whose principal operating subsidiary is Idaho Power Company (IPC). IDACORP is subject to the provisions of the Public Utility Holding Company Act of 2005 (2005 Act), which provides certain access to books and records to the Federal Energy Regulatory Commission (FERC) and state utility regulatory commissions and imposes certain record retention and reporting requirements on IDACORP.

IPC is an electric utility engaged in the generation, transmission, distribution, sale and purchase of electric energy and is regulated by the FERC and the state regulatory commissions of Idaho and Oregon. IPC is the parent of Idaho Energy Resources Co., a joint venturer in Bridger Coal Company, which supplies coal to the Jim Bridger generating plant owned in part by IPC.

IDACORP's other subsidiaries include:

IDACORP Financial Services, Inc. (IFS), an investor in affordable housing and other real estate investments;

Ida-West Energy Company (Ida-West), an operator of small hydroelectric generation projects that satisfy the requirements of the Public Utility Regulatory Policies Act of 1978 (PURPA); and

IDACORP Energy (IE), a marketer of energy commodities, which wound down operations in 2003.

IDACORP is focusing on a strategy that emphasizes IPC as IDACORP's core business. IPC continues to experience strong customer growth in its service area, and this corporate strategy recognizes that IPC must make substantial investments in infrastructure to ensure adequate electricity supply and reliable service. IFS and Ida-West remain components of the corporate strategy.

In the second quarter of 2006, IDACORP management designated the operations of IDACORP Technologies, Inc. (ITI) and IDACOMM as assets held for sale, as defined by Statement of Financial Accounting Standards No. 144, *"Accounting for the Impairment or Disposal of Long-Lived Assets"*. IDACORP's consolidated financial statements reflect the reclassification of the results of these businesses as discontinued operations for all periods presented. Discontinued operations are discussed in more detail in Note 17 to IDACORP's and IPC's Consolidated Financial Statements.

On July 20, 2006, IDACORP completed the sale of all of the outstanding common stock of ITI to IdaTech UK Limited, a wholly-owned subsidiary of Investec Group Investments (UK) Limited.

On February 23, 2007, IDACORP completed the sale of all of the outstanding common stock of IDACOMM to American Fiber Systems, Inc.

At December 31, 2006, IDACORP had 1,976 full-time employees, 1,927 of which were employed by IPC.

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IDACORP's reportable business segments are IPC and IFS, which contributed $94 million and $10 million, respectively, to income from continuing operations in 2006. Financial information relating to IDACORP's reportable segments is presented in Note 11 to IDACORP's and IPC's Consolidated Financial Statements and below in "Utility Operations," and "IFS."

IDACORP and IPC make available free of charge their Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and all amendments to these reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 as soon as reasonably practicable after the reports are electronically filed with or furnished to the Securities and Exchange Commission, through IDACORP's website at www.idacorpinc.com and through a link to the IDACORP website from the IPC website at www.idahopower.com.

UTILITY OPERATIONS:

IPC was incorporated under the laws of the state of Idaho in 1989 as successor to a Maine corporation organized in 1915. IPC's service territory covers a 24,000 square mile area in southern Idaho and eastern Oregon, with an estimated population of 943,000. IPC holds franchises in 71 cities in Idaho and nine cities in Oregon and holds certificates from the respective public utility regulatory authorities to serve all or a portion of 24 counties in Idaho and three counties in Oregon. As of December 31, 2006, IPC supplied electric energy to approximately 472,000 general business customers.

IPC owns and operates 17 hydroelectric generation developments, two natural gas-fired plants and one diesel-powered generator and shares ownership in three coal-fired generating plants. These generating plants and their capacities are listed in Item 2 - "Properties." IPC's coal-fired plants are in Wyoming, Oregon and Nevada, and use low-sulfur coal from Wyoming and Utah.

IPC is one of the nation's few investor-owned utilities with a predominantly hydroelectric generating base. Because of its reliance on hydroelectric generation, IPC's generation operations can be significantly affected by weather conditions. The availability of hydroelectric power depends on the amount of snow pack in the mountains upstream of IPC's hydroelectric facilities, reservoir storage, springtime snow pack run-off, rainfall and other weather and stream flow management considerations. During low water years, when stream flows into IPC's hydroelectric projects are reduced, IPC's hydroelectric generation is reduced. This results in less generation from IPC's resource portfolio (hydroelectric, coal-fired and gas-fired) available for off-system sales and, most likely, an increased use of purchased power to meet load requirements. Both of these situations - a reduction in off-system sales and an increased use of more expensive purchased power - result in increased power supply costs.

The primary influences on electricity sales are weather, customer growth and economic conditions. Extreme temperatures increase sales to customers who use electricity for cooling and heating, and moderate temperatures decrease sales. Increased precipitation levels during the agricultural growing season reduce electricity sales to customers who use electricity to operate irrigation pumps.

IPC's principal commercial and industrial customers are involved in food processing, electronics and general manufacturing, forest product production, beet sugar refining and the skiing industry.

Regulation

IPC is under the regulatory jurisdiction (as to rates, service, accounting and other general matters of utility operation) of the FERC, the Idaho Public Utilities Commission (IPUC) and the Oregon Public Utility Commission (OPUC). IPC is also under the regulatory jurisdiction of the IPUC, the OPUC and the Public Service Commission of Wyoming as to the issuance of debt and equity securities. IPC is subject to the provisions of the Federal Power Act as a "public utility" as therein defined. IPC's retail rates are established under the jurisdiction of the state regulatory commissions and its wholesale and transmission rates are regulated by the FERC (see "Rates" below). Pursuant to the requirements of Section 210 of PURPA, the state regulatory commissions have each issued orders and rules regulating IPC's purchase of power from cogeneration and small power production (CSPP) facilities.

IPC is subject to the provisions of the Federal Power Act as a "licensee" as therein defined. As a licensee under the Federal Power Act, IPC and its licensed hydroelectric projects are subject to the provisions of Part I of the Federal Power Act. All licenses are subject to conditions set forth in the Federal Power Act and related FERC regulations. These conditions and regulations include provisions relating to condemnation of a project upon payment of just compensation, amortization of project investment from excess project earnings, possible takeover of a project after expiration of its license upon payment of net investment, severance damages and other matters.

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The State of Oregon has a Hydroelectric Act providing for licensing of hydroelectric projects in that state. IPC's Brownlee, Oxbow and Hells Canyon facilities are on the Snake River where it forms the boundary between Idaho and Oregon and occupy lands in both states. With respect to project property located in Oregon, these facilities are subject to the Oregon Hydroelectric Act. IPC has obtained Oregon licenses for these facilities and these licenses are not in conflict with the Federal Power Act or IPC's FERC licenses (see Part II, Item 7 - "MD&A - REGULATORY MATTERS - Relicensing of Hydroelectric Projects").

Rates

The rates IPC charges to its general business customers are determined by the IPUC and the OPUC. Approximately 95 percent of IPC's general business revenue comes from customers in Idaho. IPC has a Power Cost Adjustment (PCA) mechanism that provides for annual adjustments to the rates charged to its Idaho retail customers. These adjustments are based on forecasts of net power supply costs, which are fuel and purchased power less off-system sales, and the true-up of the prior year's forecast. During the year, 90 percent of the difference between the actual and forecasted costs is deferred with interest. The ending balance of this deferral, called the true-up for the current year's portion and the true-up of the true-up for the prior years' unrecovered or over-recovered portion, is then included in the calculation of the next year's PCA. For further discussion of significant rate cases and proceedings see Part II, Item 7 - "MD&A - REGULATORY MATTERS."

Energy Efficiency

In 2006, IPC spent approximately $10 million to promote energy efficiency and summer peak reduction through its Demand Side Management (DSM) programs. Major funding for program development, implementation and administration comes from the Idaho and Oregon tariff riders for DSM and from the Conservation & Renewables Discount Program of the Bonneville Power Administration.

Approximately nine percent of the total DSM spending related to research and development, technology evaluation and market transformation, through promotion and collaboration with manufacturers of electricity consuming products, including air conditioning equipment, appliances, building components and control equipment. A portion of this activity was accomplished in conjunction with the Northwest Energy Efficiency Alliance.

Energy efficiency programs target savings across the entire year for a wide range of customer segments with an emphasis on reducing energy during the summer peak:

Approximately 22 percent of the 2006 expenses were devoted to achieving summer peak reduction through focusing on irrigation pumping and residential air conditioning equipment control measures.

The residential energy efficiency programs targeted new and existing homes, focusing on customer education and the application of energy efficiency remediation, including energy efficient building techniques, insulation augmentation, air duct sealing, and the use of efficient lighting. The segment's 2006 spending represented about 23 percent of the total.

Energy Efficiency programs for existing industrial and new commercial facilities focus on application of energy efficient techniques and technologies as well as operational and management processes to reduce energy

consumption. These programs represented approximately 18 percent of total expenses.

Approximately 24 percent of the 2006 expenses were devoted to irrigation efficiency programs. Irrigation customers can receive financial incentives for either improving the energy efficiency of an irrigation system or installing a new energy efficiency system.

Power Supply

IPC meets its system load requirements using a combination of its own generation, mandated purchases from private developers (see "CSPP Purchases" below) and purchases from other utilities and power wholesalers. IPC's generating plants and capacities are listed in Item 2 - "Properties."

IPC's system is dual peaking, with the larger peak demand occurring in the summer. The all-time system peak demand is 3,084 megawatts (MW), set on July 24, 2006. The peak winter demand for the year was 2,318 MW on December 18. IPC expects total system average load to grow 2.1 percent annually over the next three years.

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The following table presents IPC's system generation for the last three years:

	MWh			Percent of total generation		
	2006	2005	2004	2006	2005	2004
	(thousands of MWhs)					
Hydroelectric	9,207	6,199	6,041	57%	46%	45%
Thermal	7,021	7,315	7,303	43%	54%	55%
Total system generation	16,228	13,514	13,344	100%	100%	100%

The amount of electricity IPC is able to generate from its hydroelectric plants depends on a number of factors, primarily snow pack in the mountains upstream of its hydroelectric facilities, reservoir storage and stream flow conditions. When these factors are favorable, IPC can generate more electricity using its hydroelectric plants.

Under normal stream flow conditions, IPC's system generation mix is approximately 55 percent hydroelectric and 45 percent thermal.

Stream flow conditions in 2006 were much improved over 2005. The observed stream flow data released by the National Weather Service's Northwest River Forecast Center indicated that Brownlee reservoir inflow for April through July 2006 was 8.95 million acre-feet (maf), or 142 percent of average. Brownlee reservoir inflow for 2006 totaled 16.98 maf, or 123 percent of average. Storage in selected federal reservoirs upstream of Brownlee as of February 11, 2007 was 122 percent of average. The stream flow forecast released on February 15, 2007 by the National Weather Service's Northwest River Forecast Center predicts that Brownlee reservoir inflow for April through July 2007 will be 3.80 maf; or 60 percent of average.

IPC's generating facilities are interconnected through its integrated transmission system and are operated on a coordinated basis to achieve maximum load-carrying capability and reliability. IPC's transmission system is directly interconnected with the transmission systems of the Bonneville Power Administration, Avista Corporation, PacifiCorp, NorthWestern Energy and Sierra Pacific Power Company. Such interconnections, coupled with transmission line capacity made available under agreements with some of the above entities, permit the interchange, purchase and sale of power among all major electric systems in the west. IPC is a member of the Western Electricity Coordinating Council, the Western Systems Power Pool, the Northwest Power Pool and the North American Energy Standards Board. These groups have been formed to more efficiently coordinate transmission reliability and planning throughout the western grid. See "Competition - Wholesale" below.

Integrated Resource Plan: IPC's IRP is prepared and filed every two years with the IPUC and the OPUC. Prior to filing, the IRP requires extensive involvement by IPC, the IPUC Staff, the OPUC Staff, and customer and environmental representatives, as well as input on the cost of various generation technologies. The IRP is the starting point for demonstrating prudence in IPC's resource decisions. The 2006 IRP identified IPC's forecast load and resource situation for the next twenty years, analyzed potential supply-side and demand-side options and identified near-term and long-term actions. The two primary goals of the 2006 IRP were to (1) identify sufficient resources to reliably serve the growing demand for electric service within IPC's service area throughout the 20-year planning period and (2) ensure that the portfolio of resources selected balances cost, risk and environmental concerns. In addition, there were four secondary goals: (1) to give equal and balanced treatment to both supply-side resources and

demand-side measures, (2) to involve the public in the planning process in a meaningful way, (3) to explore transmission alternatives, and (4) to investigate and evaluate advanced coal technologies. The 2006 IRP was submitted to the IPUC in September 2006 and the OPUC in October 2006. See further discussion in Part II - Item 7 - "MD&A - REGULATORY MATTERS - Integrated Resource Plan."

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CSPP Purchases: As mandated by the enactment of PURPA and the adoption of avoided cost rates by the IPUC and the OPUC, IPC has entered into contracts for the purchase of energy from a number of private developers. Under these contracts, IPC is required to purchase all of the output from the facilities located inside the IPC service territory. For projects located outside the IPC service territory, IPC is required to purchase the output that IPC has the ability to receive at the facility's requested point of delivery on the IPC system. The IPUC jurisdictional portion of the costs associated with CSPP contracts are fully recovered through the PCA. For IPUC jurisdictional contracts, projects that generate up to ten average MW of energy monthly are eligible for IPUC Published Avoided Costs for up to a 20-year contract term. The Published Avoided Cost is a price established by the IPUC and OPUC to estimate IPC's cost of developing additional generation resources. On August 4, 2005, the IPUC granted a temporary reduction in the eligible project size to 100 kW for intermittent generation resources only and ordered IPC to study the impacts of integrating this type of resource. IPC completed and filed with the IPUC a wind generation integration study report on February 6, 2007. The IPUC will evaluate the proposal, possibly including public workshops, and issue a ruling. For OPUC jurisdictional contracts, projects with a nameplate rating of up to ten MW of capacity are eligible for OPUC Published Avoided Costs for up to a 20-year contract term. The OPUC jurisdictional portion of the costs associated with CSPP contracts is recovered through general rate case filings. The Oregon provisions are currently being reviewed in an OPUC proceeding, as discussed in Part II, Item 7 - "MD&A - REGULATORY MATTERS - Public Utility Regulatory Policies Act of 1978." If a PURPA project does not qualify for Published Avoided Costs, then IPC is required to negotiate the terms, prices and conditions with the developer of that project. These negotiations reflect the characteristics of the individual projects (i.e., operational flexibility, location and size) and the benefits to the IPC system and must be consistent with other similar energy alternatives.

As of December 31, 2006, IPC had signed agreements to purchase energy from 92 CSPP facilities with contracts ranging from one to 30 years. Of these facilities, 74 were on-line at the end of 2006; the other 18 facilities under contract are due to come on-line in 2007 and 2008. During 2006, IPC purchased 911,132 megawatt hours (MWh) from these projects at a cost of $54 million, resulting in a blended price of 5.9 cents per kilowatt hour.

Wholesale Energy Market Activities: Guided by a risk management policy and frequently updated operating plans, IPC participates in the wholesale energy market by buying power to help meet load demands and selling power that is in excess of load demands. IPC's market activities are influenced by its customer loads, market prices, and cost and availability of generating resources. Some of IPC's hydroelectric generation facilities are operated to optimize the water that is available by choosing when to run generation units and when to store water in reservoirs. These decisions affect the timing and volumes of market purchases and market sales. Even in below normal water years, there are opportunities to vary water usage to maximize generation unit efficiency, capture marketplace economic benefits and meet load demand. Compliance factors, such as allowable river stage elevation changes and flood control requirements, and wholesale energy market prices influence these dispatch decisions.

IPC has one firm wholesale power sales contract and one wholesale contract for load following services. The sales contract is with the Raft River Electric Cooperative for up to 15 MW. This contract expires in September 2007; however, Raft River Electric Cooperative has provided notice that it intends to renew the contract, as allowed in the original agreement, through September 2010. The load following contract, with NorthWestern Energy, requires IPC to increase or decrease its generation by up to 30 MW to react to NorthWestern's system load changes. This contract automatically renews annually unless either party chooses to terminate. Due to the uncertainty regarding the regulation requirements of anticipated wind generation, IPC expects to terminate this contract effective December 2007.

IPC has one firm wholesale purchased power contract. This contract is with PPL Montana, LLC for 83 MW per hour to address increased demand during June, July and August. The term of this contract began in June 2004 and runs through August 2009.

Transmission Services: IPC has a long history of providing wholesale transmission service and provides firm and non-firm wheeling services for several surrounding utilities. IPC's system lies between and is interconnected to the winter-peaking northern and summer-peaking southern regions of the western interconnected power system. This geographic position allows IPC to provide transmission services and reach a broad power sales market.

IPC holds rights-of-way from Midpoint substation in south-central Idaho through eastern Nevada to the Dry Lake area northeast of Las Vegas, Nevada, known as the Southwest Intertie Project (SWIP). In 2004, the Bureau of Land Management granted a five-year extension to begin construction of a proposed 500-kilovolt transmission line within the rights-of-way to December 2009. IPC obtained the rights-of-way to construct a transmission line along this corridor, but no longer plans to build the line. On March 31, 2005, IPC entered into an agreement with White Pine Energy Associates, LLC (White Pine), an affiliate of LS Power Development, LLC, which provides White Pine a three-year exclusive option to purchase the SWIP rights-of-way from IPC. The option may be exercised in part or as a whole and, if fully exercised, will result in a net pre-tax gain to IPC of approximately $6 million.

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In December 1999, the FERC issued Order No. 2000 encouraging companies with transmission assets to form Regional Transmission Organizations. See "Competition - Wholesale" below.

Fuel

IPC, through its subsidiary Idaho Energy Resources Co., owns a one-third interest in Bridger Coal Company, which owns the Jim Bridger mine supplying coal to the Jim Bridger generating plant in Wyoming. The mine, located near the Jim Bridger plant, operates under a long-term sales agreement that provides for delivery of coal over a 51-year period ending in 2024. The Jim Bridger mine has sufficient reserves to provide coal deliveries for the term of the sales agreement. IPC also has a coal supply contract providing for annual deliveries of coal through 2009 from the Black Butte Coal Company's Black Butte and Leucite Hills mines located near the Jim Bridger plant. This contract supplements the Bridger Coal Company deliveries and provides another coal supply to operate the Jim Bridger plant. The Jim Bridger plant's rail load-in facility and unit coal train allow the plant to take advantage of potentially lower-cost coal from other mines for tonnage requirements above established contract minimums.

In an effort to lower costs and access better quality coal, the Jim Bridger mine is converting from a surface operation to a primarily underground operation. Underground mine development and limited coal production began in 2004, and start-up operations are expected to begin in March 2007. A number of factors were considered in this decision including the increasing cost of the surface mine operation as well as the additional capital required to develop the underground mine. This conversion is expected to result in a reduction of the cost of mining coal over the life of the Jim Bridger Mine.

Sierra Pacific Power Company, as operator of the North Valmy Generating Plant (Valmy), has an agreement with Arch Coal Sales Company, Inc. to supply coal to the plant through 2009. IPC is obligated to purchase one-half of the coal, ranging from 515,000 tons to 762,500 tons annually. Sierra Pacific Power Company also has a coal supply contract with Black Butte Coal Company's Black Butte Mine for deliveries through 2009. IPC is obligated to purchase one-half of the coal purchased under this agreement, ranging from 450,000 to 600,000 tons annually.

The Boardman generating plant receives coal from the Powder River Basin through annual contracts. Portland General Electric, as operator of the Boardman plant, has an agreement with Buckskin Mining Company to supply all of Boardman's coal requirements through 2008. IPC is obligated to purchase 10 percent of the coal purchased under this agreement, ranging from 230,000 to 270,000 tons annually.

IPC owns and operates the Danskin and Bennett Mountain combustion turbines, which receive gas through the Williams Northwest Pipeline. All gas is purchased as needs are identified for summer peaks or to meet system requirements. The gas is transported under a long-term capacity contract with the Williams Northwest Pipeline and an arrangement with IGI Resources, Inc. The Williams Northwest Pipeline contract, which extends through February 28, 2007, with annual extensions at IPC's sole discretion, is for 24,523 million British thermal units (MMBtu) per day from the Sumas, Washington metering point to the Elmore, Idaho metering point. In addition to a long-term capacity contract, IPC has entered into a long-term contract with Williams Northwest Pipeline for storage capacity at the Jackson Prairie Storage Project located in Lewis County, Washington. As the project is developed, storage capacity will be phased into service and allocated to IPC monthly, until reaching 11,267 MMBtu per day of firm deliverability. Storage capacity is expected to commence in March 2007, reaching maximum deliverability by November 1, 2008.

The firm storage contract extends through November 1, 2043, with bi-lateral termination rights at the end of the contract. Storage gas will be purchased and stored with the intent of supplying needs as identified for summer peaks or to meet system requirements. See further discussion in Part II, Item 7 - "MD&A - RESULTS OF OPERATIONS - Utility Operations - Fuel Expense."

Water Rights

Except as discussed below, IPC has acquired water rights under applicable state law for all waters used in its hydroelectric generating facilities. In addition, IPC holds water rights for domestic, irrigation, commercial and other necessary purposes related to other land and facility holdings within the state. The exercise and use of all of these water rights are subject to prior rights, and with respect to certain hydroelectric generating facilities, IPC's water rights for power generation are subordinated to certain future upstream diversions of water for irrigation and other recognized consumptive uses.

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Over time, increased irrigation development and other consumptive diversions have resulted in a reduction in the stream flows available to fulfill IPC's water rights at certain hydroelectric generating facilities. In reaction to these reductions, IPC initiated and continues to pursue a course of action to determine and protect its water rights. As part of this process, IPC and the State of Idaho signed the Swan Falls agreement on October 25, 1984, which provided a level of protection for IPC's hydropower water rights at specified plants by setting minimum stream flows and establishing an administrative process governing the future development of water rights that may affect IPC's hydroelectric generation. In 1987, Congress passed, and the President signed into law, House Bill 519. This legislation permitted implementation of the Swan Falls agreement and further provided that during the remaining term of certain of IPC's project licenses the relationship established by the agreement would not be considered by the FERC as being inconsistent with the terms of IPC's project licenses or imprudent for the purposes of determining rates under Section 205 of the Federal Power Act. The FERC entered an order implementing the legislation on March 25, 1988.

In addition to providing for the protection of IPC's hydroelectric water rights, the Swan Falls agreement contemplated the initiation of a general adjudication of all water uses within the Snake River basin. In 1987, the director of the Idaho Department of Water Resources filed a petition in state district court asking that the court adjudicate all claims to water rights, whether based on state or federal law, within the Snake River basin. The court signed a commencement order initiating the Snake River Basin Adjudication on November 19, 1987. This legal proceeding was authorized by state statute based upon a determination by the Idaho Legislature that the effective management of the waters of the Snake River basin required a comprehensive determination of the nature, extent and priority of all water uses within the basin. The adjudication is proceeding and is expected to continue for at least the next several years. IPC has filed claims to its water rights within the basin and is actively participating in the adjudication in an effort to ensure that its water rights and the operation of its hydroelectric facilities are not adversely impacted.

Please see Part II, Item 7 - "MD&A - LEGAL AND ENVIRONMENTAL ISSUES - Environmental Issues - Idaho Water Management Issues" and "MD&A - REGULATORY MATTERS - Relicensing of Hydroelectric Projects."

Environmental Regulation

IPC's activities are subject to a broad range of federal, state, regional and local laws and regulations designed to protect, restore and enhance the quality of the environment. Environmental regulation continues to impact IPC's operations due to the cost of installation and operation of equipment and facilities required for compliance with such regulations, and the modification of system operations to accommodate such regulations. IPC's compliance costs will continue to be significant for the foreseeable future.

Based upon present environmental laws and regulations, IPC estimates its 2007 capital expenditures for environmental matters, excluding Allowance for Funds Used During Construction (AFDC), will total $30 million. Studies and measures related to environmental concerns at IPC's hydroelectric facilities account for $19 million, and investments in environmental equipment and facilities at the thermal plants account for $11 million. For 2008 and 2009, environmental-related capital expenditures, excluding AFDC, are estimated to be $44 million. Anticipated expenses related to IPC's hydroelectric facilities account for $31 million, and thermal plant expenses are expected to total $13 million.

IPC anticipates $19 million in annual operating costs for environmental facilities during 2007. Hydroelectric facility expenses account for $12 million of this total, and $7 million is related to thermal plant operating expenses. For 2008 and 2009, total environmental related operating costs are estimated to be $50 million. Expenses related to the hydroelectric facilities are expected to be $35 million, and thermal plant expenses are expected to be $15 million during this period.

Air Quality Issues

IPC owns two natural gas combustion turbine power plants and co-owns three coal-fired power plants that are subject to air quality regulation. The natural gas-fired plants, Danskin and Bennett Mountain, are located in Idaho. The coal-fired plants are: Jim Bridger (33 percent interest) located in Wyoming; Boardman (ten percent interest) located in Oregon; and North Valmy (50 percent interest) located in Nevada. Please see Part II, Item 7 - "MD&A - LEGAL AND ENVIRONMENTAL ISSUES - Environmental Issues - Air Quality Issues" for a discussion of these matters.

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Water: As required under the Federal Water Pollution Control Act Amendments of 1972, IPC has received necessary environmental permits and authorizations and has prepared necessary plans relating to operations and water quality, such as effluent discharge, spill prevention and countermeasures, and storm water pollution prevention.

In March 1976, IPC agreed to operate its American Falls hydroelectric generating plant to meet certain dissolved oxygen standards in the Snake River downstream from the plant during the period from May 15 to October 15 of each year and to provide water quality monitoring facilities. In order to meet the dissolved oxygen standards, IPC installed and operates aeration equipment at the American Falls plant.

IPC has also installed aeration equipment, water quality monitors and data processing equipment as part of its Cascade hydroelectric project to provide accurate water quality data and increase dissolved oxygen levels as necessary to maintain water quality standards on the Payette River. IPC has also installed and operates water quality monitors at its Milner, Shoshone Falls, Twin Falls, Upper Salmon, Lower Salmon, Bliss and CJ Strike hydroelectric projects in order to meet compliance standards for water quality on the Snake River.

Endangered Species: In December 1992, the U.S. Fish and Wildlife Service listed several species of fish and five species of snails living within IPC's operating area as threatened or endangered species under the Endangered Species Act. IPC continues to review and analyze the effect such designation has on its operations and is cooperating with governmental agencies to resolve issues related to these species.

On December 21, 2006, IPC and Idaho Governor James Risch submitted a petition to the U.S. Fish and Wildlife Service to de-list the threatened Bliss Rapids snail. The petition was supported with data collected by IPC over the past 14 years. The snail, which lives throughout the middle Snake River, springs, and tributaries between Niagara Springs and King Hill, was listed as threatened under the Endangered Species Act in 1992. The Fish and Wildlife Service has one year to decide if de-listing is warranted. With this filing, three of the five snail species that are found in the middle Snake River and were originally listed as threatened or endangered species in 1992 are now being considered for removal from the list.

Pursuant to FERC License 1971, IPC owns and finances the operation of anadromous fish hatcheries and related facilities to mitigate the effects of its hydroelectric dams on fish populations. In connection with its fish facilities, IPC sponsors ongoing programs for the control of fish disease, improvement of fish production, and evaluation of hatchery performance. IPC's anadromous fish facilities at Hells Canyon, Oxbow, Rapid River, Pahsimeroi and Niagara Springs continue to be operated by the Idaho Department of Fish and Game. At December 31, 2006, the investment in these facilities was $15 million and the annual cost of operation was $3 million.

Hazardous/Toxic Wastes and Substances: Under the Toxic Substances Control Act, the EPA has adopted regulations governing the use, storage, inspection and disposal of electrical equipment that contains polychlorinated biphenyls (PCBs). The regulations permit the continued use and servicing of certain equipment (including transformers and capacitors) that contain PCBs. IPC continues to meet all federal requirements of the Toxic Substances Control Act for the continued use of equipment containing PCBs. IPC continues to eliminate PCBs as part of its long-term strategy. This program will reduce costs associated with the long-term monitoring of PCB-containing

equipment, responding to spills and reporting to the EPA. In 2006, IPC spent approximately $0.9 million identifying and eliminating PCBs.

Competition

Retail: Electric utilities have historically been recognized as natural monopolies and have operated in a highly regulated environment in which they have an obligation to provide electric service to their customers in return for an exclusive franchise within their service territory with an opportunity to earn a regulated rate of return.

Some state regulatory authorities are in the process of changing utility regulations in response to federal and state statutory changes and evolving competitive markets. These statutory changes and conforming regulations may result in increased retail competition. In 1997, the Idaho Legislature appointed a committee to study restructuring of the electric utility industry. The committee has not recommended any restructuring legislation and is not expected to in the foreseeable future. The committee's focus has since shifted from restructuring to general energy issues. In 1999, the Oregon Legislature passed legislation restructuring the electric utility industry, but exempted IPC's service territory.

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Wholesale: The 1992 National Energy Policy Act and the FERC's rulemaking activities have established the regulatory framework to open the wholesale energy market to competition. This act permits utilities to develop independent electric generating plants for sales to wholesale customers, and authorizes the FERC to order transmission access for third parties to transmission facilities owned by another entity. This act does not, however, permit the FERC to require transmission access to retail customers. Open-access transmission for wholesale customers provides energy suppliers with opportunities to sell and deliver electricity at market-based prices.

For more information, see Part II, Item 7 - "MD&A - REGULATORY MATTERS - Regional Transmission Organizations."

Utility Operating Statistics

The following table presents IPC's revenues and energy use by customer type for the last three years, which is further discussed in Part II, Item 7 - "MD&A - RESULTS OF OPERATIONS - Utility Operations:"

	Years Ended December 31,		
	2006	**2005**	**2004**
Revenues (thousands of dollars)			
Residential	$ 299,594	$ 299,488	$ 274,313
Commercial	162,391	173,268	164,053
Industrial	102,958	118,259	