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May 14, 2018

VIA ELECTRONIC FILING

Attention: Filing Center
Public Utility Commission of Oregon
201 High Street SE, Suite 100
P.O. Box 1088
Salem, Oregon 97308-1088

Re: Docket UM 1909 – In the Matter of PUBLIC UTILITY COMMISSION OF OREGON, Investigation of the Scope of the Commission's Authority to Defer Capital Costs.

Attention Filing Center:

Attached for filing in the above-captioned docket is an electronic copy of Idaho Power Company's Supplemental Closing Brief.

Please contact this office with any questions.

Sincerely,

Alisha Till

Alisha Till
Legal Assistant

Attachments

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BEFORE THE PUBLIC UTILITY COMMISSION OF OREGON

UM 1909

In the Matter of PUBLIC UTILITY COMMISSION OF OREGON Investigation of the Scope of the Commission's Authority to Defer Capital Costs	IDAHO POWER COMPANY'S SUPPLEMENTAL CLOSING BRIEF

I. INTRODUCTION AND SUMMARY

This Supplemental Closing Brief is submitted on behalf of Idaho Power Company ("Idaho Power" or "Company"). While the Joint Utilities' Closing Brief[1] incorporates Idaho Power's legal analysis and explains why ORS 757.259 clearly authorizes the Public Utility Commission of Oregon ("Commission") to approve full revenue requirement deferrals, this Supplemental Closing Brief provides a practical illustration of how such capital investment deferrals can support administrative efficiency and minimize the number of general rate cases, consistent with the language and intent of ORS 757.259.

II. BACKGROUND

Idaho Power's sole capital investment revenue requirement deferral was approved in 2012, in connection with the Langley Gulch Power Plant ("Langley"), which came into service on June 29, 2012.[2] At the time it filed for deferral, the Company had recently completed a general rate case, with new rates effective on March 1, 2012.[3] However, because the suspension period in the

[1] The Joint Utilities' Closing Brief provides the consolidated legal analysis of Idaho Power, Portland General Electric Company ("PGE"), PacifiCorp d/b/a Pacific Power ("PacifiCorp"), Northwest Natural Gas Company ("NW Natural") Avista Corporation ("Avista"), and Cascade Natural Gas Corporation ("Cascade") (collectively, "Joint Utilities").
[2] *In the Matter of Idaho Power Company's General Rate Revision Application for Authority to Include the Langley Power Plant Investment in Rate Base*, Docket No. UE 248, Stipulation at 3 (Sept. 5, 2012).
[3] Docket No. UE 248, Testimony, IPC's Executive Summary at 4 (Mar. 9, 2012).

general rate case ended before Langley's planned in-service date of July 1, 2012, the Company did not include the project in its general rate filing, and instead filed a revised tariff on March 9, 2012, solely to reflect Langley in rates.[4] The Company's proposed revised tariff was effective July 1, 2012, to coincide with the project's in-service date.[5]

Given that the new filing concerned only a single issue, the Company had anticipated that Langley could be evaluated and included in rates by the plant's in-service date.[6] However, Staff's workload was unable to accommodate the expedited filing timeline, and on March 26, 2012, the Commission imposed the 9-month schedule applicable for general rate cases, with a new tariff effective date planned for March 31, 2013.[7] Thus, under the adopted schedule, the Company would be unable to include the investment in Langley in rates, until after the plant had been operating for nearly a year. However, to address the Company's concerns, Staff agreed that it would be appropriate for the Company to defer the revenue requirement impact of Langley, from the date of its operations until the effective date of the new rates, so that the Company would be allowed to recover its investment at a later date.

The Company therefore filed a deferral request on May 4, 2012 to "address[] the mismatch of revenues and costs associated with the suspension of Idaho Power's tariff sheets."[8] Idaho Power explained that the deferral would minimize the frequency of rate changes and appropriately match customers' costs and benefits.[9] Staff agreed, finding that the deferral was consistent with

[4] Docket No. UE 248, Stipulation at 1-2.
[5] Docket No. UE 248, Stipulation at 1-2.
[6] Docket No. UE 248, Testimony, IPC's Executive Summary at 4.
[7] Docket No. UE 248, Order No. 12-101 at 1 (Mar. 26, 2012). While "the statute contemplates that the maximum suspension would occur in two steps—an initial six-month suspension followed by a second three-month suspension if necessary," the Commission concluded "that a full nine-month suspension [was] necessary to conduct [its] investigation." *Id.*
[8] *In the Matter of Idaho Power Company's Application for Deferred Accounting of Revenue Requirement Variances Associated with the Langley Gulch Power Plant*, Docket No. UM 1597, Application at 2 (May 2, 2012).
[9] Docket No. UM 1597, Application at 4.

ORS 757.259(2)(e) and that it would "allow the utility to better match the costs and benefits of Langley."[10] The Commission approved the request for deferral on May 31, 2012.[11] The deferral included the revenue requirement associated with capital investments.[12]

A settlement was subsequently reached in Idaho Power's Langley rate case, and the Commission included the project in rates beginning on October 1, 2012.[13] As a result, the Company's ongoing Langley deferral account includes the incremental revenue requirement effect of Langley for the period between July 1, 2012, and September 30, 2012—that is, after the date when the Company's tariff would have taken effect, and up to the date when the approved tariff actually took effect.[14]

Since the deferral was approved, Idaho Power has been unable to seek amortization of the deferred amount because the Company has been amortizing the effects of the 2008 Power Cost Adjustment Mechanism ("PCAM"), which was authorized for deferral in Order No. 10-016.[15] Due to the Company's relatively low revenues in Oregon, coupled with the amortization cap in ORS 757.259, only the PCAM deferral could be amortized—thus delaying the recovery of costs already delayed from the Company's initial 2012 revised tariff filing.

On February 28, 2017, Idaho Power asked the Commission to amortize the Langley deferral balance beginning "immediately following the completion of amortization of the

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[10] Docket No. UM 1597, Order No. 12-226, Appendix A at 2-3 (June 19, 2012).
[11] Order No. 12-226.
[12] *In the Matter of Idaho Power Company Request for Amortization of Certain Expenses Relating to the Revenue Requirement Variances with the Langley Gulch Power Plant*, Docket No. UE 321, Idaho Power/105, Waites/1 (Feb. 28, 2017).
[13] Docket No. UE 248, Order No. 12-358 at 4 (Sept. 20, 2012).
[14] Docket No. UE 321, Application for Amortization at 1 (Feb. 28, 2017).
[15] Docket No. UE 321, Application for Amortization at 3; *see also In re Idaho Power Co.'s Application for Authority to Implement a Power Cost Adjustment Mechanism for Elec. Service to Customers in the State of Or.*, Docket No. UE 195, Order No. 10-016 (Jan. 15, 2010).

Company's 2008 PCAM" in April 2017.[16] At this point, and for the first time, Staff suggested that the Langley deferral of the investment's full revenue requirement effect for the delay period might be outside the Commission's "legal authority."[17]

III. DISCUSSION

Staff fully supported Idaho Power's deferral of the revenue requirement effect associated with Langley, which covered the period of delay when the Company's tariff sheet was suspended.[18] Now, years later, Staff claims that the Commission *cannot* defer the full revenue requirement effect of a capital investment and *should not* defer the return of the utility's capital investment itself.[19] Staff's sudden change of position (1) fails to address the implications such a wholesale change would have for existing deferrals, (2) indicates the reversal of prior Commission and Staff support for Idaho Power's deferral that evokes significant risks that could result in financial harm to the Company and its customers, and (3) ignores the Commission's (and Staff's own) past findings, of the public benefits of deferrals.

First, to be clear, the Commission has already authorized Idaho Power's Langley deferral, and has already concluded that the Commission has authority to defer the comprehensive revenue requirement effect of the project.[20] Staff now takes the position that the Commission's previous decision to defer the return on the Company's capital investment was beyond the Commission's legal authority,[21] and that the Commission's previous decision to defer the return *of* the Company's

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[16] Docket No. UE 321, Application for Amortization at 3.
[17] Docket No. UE 321, Staff Report at 2 (Mar. 15, 2017).
[18] *See* Order No. 12-226, Appendix A at 2.
[19] Staff's Closing Brief at 1.
[20] Order No. 12-226.
[21] Docket No. UM 1909, Staff's Opening Brief at 1 ("Legally the Commission has the authority to defer the return *of* capital investment (depreciation expense), but not the legal authority to defer the return *on* capital investment.")

capital investment—which Staff originally supported as consistent with the public interest—should be overturned.[22] Yet Staff refuses to address this inconsistency with other dockets, stating instead that "currently approved and pending deferral applications . . . will need to be addressed outside of this proceeding."[23] Given that Staff proposes a broadly-applicable new policy in this docket, it would seem eminently reasonable to consider the practical implications of such a policy for readily-available examples—such as the Langley deferral. Ignoring these clear implications merely emphasizes that Staff's new policy has no basis in the practical realities and benefits of deferrals.

Second, Staff's inconsistency has the potential for negative financial impacts to Idaho Power and its customers stemming from both the financial investment community and credit rating agency concerns. Regulatory consistency is a critical component of Idaho Power's credit stability and ability to raise the capital needed to fund its investments in utility infrastructure necessary to serve customers—as evidenced in the attached Moody's Investors Service press release dated February 5, 2018, affirming the Company's credit rating.[24] In fact, with respect to Idaho Power's stable outlook, Moody's states that "[Idaho Power's] financial and regulatory consistency support the A3 rating."[25] The reversal of the Langley deferral would reflect both the Commission and Staff overturning a decision previously supported by both entities, indicating an inconsistent and unpredictable regulatory environment. This adverse outcome could potentially lead to further uncertainty in regulatory proceedings and may cause a negative impact on Idaho Power's credit

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[22] Docket No. UM 1909, Staff's Opening Brief at 11 ("The Commission should decline to exercise its discretion to allow the deferral of return of utility investment").
[23] Docket No. UM 1909, Staff's Opening Brief at 11.
[24] *See* Attachment A (Moody's Investors Service, *Rating Action: Moody's affirms Idaho Power at A3 and IDACORP at Baa1* (Feb. 5, 2018)).
[25] *Id.* at 1.

rating, thereby making it more difficult for Idaho Power to raise capital and increasing the Company's financing costs and ultimately costs to customers.

Third, Staff ignores both the Commission's and its own past findings that deferrals for projects such as Langley provide clear and genuine public benefits.[26] Such public interest is inherent in the very language of ORS 757.259, which allows for deferrals to minimize the frequency of rate changes or to better match the benefits received and costs borne by customers.[27] Staff acknowledged these benefits in the Langley deferral, noting that it will allow the Company to better match the costs and benefits of Langley for customers, effectively support administrative efficiency, and properly minimize the number of general rate cases.[28]

In light of this clear precedent, there is simply no basis for adopting the uniform assumption that *all* capital investment revenue requirement deferrals are contrary to the public interest. By examining the specific examples of past Commission decisions and Staff's own support, it is plain that capital investment revenue requirement deferrals can—and do—effectively serve the public interests codified by the legislature in ORS 757.259.

IV. CONCLUSION

The public benefits served by the Langley deferral are the same benefits described by the legislature in ORS 757.259. Staff's position would foreclose the Commission's ability to exercise its discretion to effectuate such benefits, contrary to the plain language of the statute and the manifest will of the legislature. Idaho Power therefore respectfully requests that the Commission continue to approve capital investment revenue requirement deferrals on a case-by-case basis, consistent with the public interest characterized by ORS 757.259. Deferrals that minimize the

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[26] *See* Order No. 12-226, Appendix A at 2.
[27] ORS 757.259(2)(e).
[28] *See* pOrder No. 12-226, Appendix A at 2.

number of rate cases and better match the costs borne and benefits received by customers are properly approved and amortized into rates.

Respectfully submitted this 14th of May 2018, on behalf of Idaho Power.

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BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON

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IDAHO POWER COMPANY

Attachment A
Moody's Investors Service

May 14, 2018

MOODY'S
INVESTORS SERVICE

Rating Action: Moody's affirms Idaho Power at A3 and IDACORP at Baa1; outlooks stable

Global Credit Research - 05 Feb 2018

New York, February 05, 2018 -- Moody's Investors Service, ("Moody's") today affirmed the ratings of Idaho Power Company (IPC), including its A3 Issuer rating, A1 senior secured rating, its P-2 short term rating for commercial paper and its VMIG 2 industrial revenue bond rating. Moody's affirmed the ratings of its parent company, IDACORP's (IDA) Baa1 Issuer rating and its P-2 short term rating for commercial paper. The outlooks of IPC and IDA are stable. IDA's credit profile is based primarily on its principal subsidiary, IPC, with one notch of structural subordination applied. IDA has no standalone long-term debt, but is an occasional issuer of commercial paper.

RATINGS RATIONALE

"Nearly 100% of IDACORP's revenue, assets and cash flow are derived from utility operations at Idaho Power. The low business risk profile, financial performance and credit profile of IDACORP's primary subsidiary are the most important factors supporting IDACORP's rating" said Robert Petrosino, Vice President/Senior Analyst. IDA's other operating subsidiaries are relatively small and include: IDACORP Financial Services, an investor in affordable housing projects and other real estate investments; and Ida-West Energy, an operator of nine small hydro-electric generation projects that satisfy the requirements of the Public Utility Regulatory Policies Act of 1978.

IPC enjoys a constructive regulatory environment and a unique asset base that largely mitigate the utility's weaker relative cash flow metrics, including CFO pre-WC to debt consistently in the mid-to-high teens. This compares poorly to A3-rated vertically integrated peers, which typically produce between 20% and 25% CFO pre-WC to debt. IPC does not fully benefit from tax deferrals as they are flowed back to customers in rates, and has a longer depreciable asset life given its hydro generation centric asset base, both of which contribute to the relative weakness in CFO metrics.

Nevertheless, given the predictability of IPC's financial profile and the above average regulatory support in Idaho, we see a high degree of credit stability. IPC's financial and regulatory consistency support the A3 rating, compared to peers that have a higher degree of risk in regulatory decisions or increased financial volatility. The cooperative regulatory environment that the IPUC maintains helps to lower IPC's business risk, as the suite of cost recovery provisions allowed is above average compared to the other states across the US. These mechanisms provide certainty to cash flow generation in any given year, with variances typically due to hydro or weather conditions that average out over time.

In addition to the commodity and conservation trackers, and decoupling, IPC is currently operating under a settlement stipulation through 2019. The settlement is a significant credit positive, since it allows IPC to amortize additional accumulated deferred investment tax credits (ADITC) in an aggregate amount up to $45 million should its return on equity (ROE) fall below 9.5% in its Idaho jurisdiction. This essentially provides an earnings floor level for IPC. Assuming the $45 million availability is not exhausted, this enhances the predictability of IPC's earnings and cash flow for the three year term of the settlement. However, IPC has not needed to use ADITC amortization to meet its 9.5% ROE since the settlement was enacted.

In May 2017, IPC received approval to accelerate rate base recovery related to its ownership interests in the North Valmy coal plant. IPC expects to end participation in the North Valmy plant by 2025.

In December 2017, IPC filed with its Idaho regulators for approval of a stipulation of settlement related to the expenses incurred in the re-licensing process of its Hells Canyon Hydro-electric Complex (HCC). The company is seeking a prudence determination on $216.5 million to be included in customer rates in the future. HCC has 1,167 MWs of generation capacity, representing 34% of IPC's total capacity. The company has been collecting $6.5 million annually in AFUDC related to HCC's relicensing. When a relicensed HCC is moved into rate base, IPC's hydro generation will represent a value of approximately $600/kw. IPC expects a new 40 to 50 year license no earlier than 2021.

IPC is experiencing good growth across customer classes driven by its nation leading population growth in

Idaho as well as by attracting new business and existing business expansion. The state and its cities are experiencing population growth as existing companies expand operations and new companies open their doors in IPC's service territory.

IPC's generation resources are sufficient to meet the company growing load profile. IPC's 2017 Integrated Resource Plan does not call for any additional generation resources over the near to intermediate term with no resource needs prior to 2026. Longer term planning needs are largely expected to be met by the mid-2020s expected in-service date of its Boardman to Hemingway (B2H) transmission line, currently in development with minor permitting approvals remaining.

We expect a gradual absolute and relative improvement in IPC's financial profile. A consistent capital plan which averages $300 million annually over the next few years has largely been funded with cash flow. IDA has achieved steady dividend growth and its payout is commensurate with the industry and peers.

Rating Outlook

IDA's stable outlook is substantially driven by the outlook of IPC. IPC's stable rating outlook reflects a very supportive regulatory environment that offers timely cost recovery and constructive rate making policies, providing very consistent and predictable cash flow.

Factors that Could Lead to an Upgrade

IDA's rating would likely be upgraded with the upgrade of IPC. The rating of IPC could be upgraded if key credit metrics improve such that cash flow from operations pre-working capital (CFO pre-WC) to debt approaches mid 20% percent on a sustained basis.

Factors that Could Lead to a Downgrade

IDA's rating would likely be downgraded with the downgrade of IPC. IPC could be downgraded if financial metrics were to weaken, such that CFO pre-WC to debt persists below the high teens. Additionally, IPC's rating could be downgraded if the company were to experience a decline in the level of regulatory support for its operating or capital expenditures.

Outlook Actions:

..Issuer: IDACORP, Inc.

....Outlook, Remains Stable

..Issuer: Idaho Power Company

....Outlook, Remains Stable

Affirmations:

..Issuer: American Falls Reservoir District, ID

....Senior Unsecured Revenue Bonds, Affirmed A3

....Senior Unsecured Revenue Bonds, Affirmed VMIG 2

..Issuer: Humboldt (County of) NV

....Senior Secured Revenue Bonds, Affirmed A1

..Issuer: IDACORP, Inc.

.... Issuer Rating, Affirmed Baa1

....Senior Unsecured Commercial Paper, Affirmed P-2

..Issuer: Idaho Power Company

.... Commercial Paper, Affirmed P-2

.... Issuer Rating, Affirmed A3

....Senior Secured First Mortgage Bonds, Affirmed A1

....Senior Secured Regular Bond/Debenture, Affirmed A1

....Underlying Senior Secured Regular Bond/Debenture, Affirmed A1

..Issuer: Morrow (Port of) OR

....Senior Unsecured Revenue Bonds, Affirmed A3

....Senior Unsecured Revenue Bonds, Affirmed VMIG 2

..Issuer: Sweetwater (County of) WY

....Senior Secured Revenue Bonds, Affirmed A1

The principal methodology used in these ratings was Regulated Electric and Gas Utilities published in June 2017. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

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