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March 16, 2006

VIA ELECTRONIC MAIL AND US MAIL

Filing Center
Oregon Public Utility Commission
550 Capitol Street NE #215
PO Box 2148
Salem, OR 97308-2148

Re: UM 1147 – Idaho Power Initial Comments

Dear Sir or Madam:

Enclosed for filing in the above-named docket is the original Idaho Power Company's Initial Comments. Please contact this office with any questions.

Very truly yours,

Jessica A. Gorham

Enclosures

cc: UM 1147 Service List

BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UM 1147

In the Matter of PUBLIC UTILITY COMMISSION OF OREGON Staff's Request To Open An Investigation Related To Deferred Accounting.	)))))))))	IDAHO POWER COMPANY'S INITIAL COMMENTS – PHASE 2

In accordance with the Administrative Law Judge's January 25, 2006 Prehearing Conference Memorandum and Commission Order No. 05-1070, Idaho Power Company ("Idaho Power" or "the Company") submits the following comments regarding the rate of interest to be applied to authorized deferred account balances during the period of recovery.

Idaho Power's comments can be summarized as follows:

1. Considering the period of time over which Idaho Power's deferral balance will be recovered from customers, use of Idaho Power's Commission-approved rate of return as the carrying charge rate is appropriate.

2. Adopting a carrying charge rate that is less than Idaho Power's authorized cost of capital will preclude Idaho Power from recovering its actual cost of carrying the deferral balance.

3. Staff's recommendation to use the rates paid on treasury securities as the carrying charge rate is unreasonable, arbitrary and overly complex.

Each of these comments is addressed in greater detail below.

1. <u>Considering the Period Of Time Over Which Idaho Power's Deferral Balance Will Be Recovered From Customers, Use Of Idaho Power's Commission-Approved Rate of Return As the Carrying Charge Rate Is Appropriate.</u>

Idaho Power believes that its deferral situation is unique in comparison to the other regulated utilities in Oregon. Idaho Power has approximately 18,000 customers in Oregon. Idaho Power's 2005 normalized revenue in Oregon was $26,844,777. Idaho Power's current accrued deferral amount is approximately $11,000,000. The amortization cap included in ORS 757.259, coupled with the low amount of annual revenue Idaho Power collects in Oregon, substantially limits Idaho Power's ability to recover deferred costs in customer rates in a reasonable amount of time. For example, Idaho Power began amortizing an approved amount of excess power supply costs incurred in 2001 in May of 2001. At current Oregon revenue levels, it will take Idaho Power approximately three more years to recover that deferral. At current Oregon revenue levels, it will take approximately six years to recover the approved amount of deferred excess power supply expenses the Company incurred in 2005.

The extended periods of time needed for Idaho Power to recover its accrued deferral amounts makes it unreasonable for the Commission to apply a short-term interest rate to Idaho Power's deferral balances. The appropriate carrying cost on the unamortized balance of the deferrals is Idaho Power's approved overall rate of return.

2. Adopting A Carrying Charge Rate That Is Less Than Idaho Power's Authorized Cost Of Capital Will Preclude Idaho Power From Recovering Its Actual Cost Of Carrying the Deferral Balance.

In prior comments, those parties advocating the use of a carrying charge rate other than Idaho Power's overall rate of return have contended that, because there is virtually no risk that Idaho Power will not recover its deferral balance, the use of a low interest rate is justified. This conclusion ignores the costs Idaho Power actually incurs to carry a deferral balance.

Like other utilities, Idaho Power's sources of capital are issuances of equity and debt. Idaho Power's cost of equity is established by the Commission in Idaho Power's general revenue requirement proceedings. The cost of the debt component is made up of multiple layers of debt with a different cost assigned to each debt layer. The carrying costs associated with each layer of debt are differentiated primarily by the term of the debt instruments and the Company's credit rating and debt rating at the time the debt was incurred. Short-term debt has the lowest interest rates and, as the term of the debt obligation lengthens, the interest rate required by the lender increases.

In the case of Idaho Power's current deferrals, Idaho Power incurred the deferred amounts as a result of purchasing electric energy to serve Oregon loads at costs that far exceeded the Company's normalized level power supply expense. The Commission agreed that it would be in the public interest to allow Idaho Power to recover its excess power supply expense costs by way of the deferral and amortization process that has been used in Oregon for many years.

In approving the deferral, the Commission determined that Idaho Power has expended money on behalf of its customers that should be repaid to Idaho Power over time, i.e., the deferral amortization period. In approving the deferral, the Commission also determined that allowing Idaho Power to recover the reasonable carrying costs on the money that was expended to benefit customers is in the public interest. It logically follows that setting the allowed carrying charge rate so low that it precludes the Company from recovering its reasonable actual carrying costs would not be in the public interest.

The only instance in which Idaho Power believes it might be appropriate to apply a carrying cost that is lower than the Company's Commission-approved rate of return to a deferral balance would be when there was absolutely no question that the entire deferral balance could be fully amortized in less than one year. For any amortization term longer than one year, the authorized rate of return is the appropriate carrying charge.

3. <u>Staff's Recommendation To Use the Rates Paid On Treasury Securities Is Unreasonable And Overly Complex.</u>

In its Phase 1 comments, Staff recommended that the interest rate to be applied to unamortized balances in deferral accounts should be based primarily on the interest rates paid on one, three and five-year treasury securities. No evidence has been presented to indicate that Idaho Power's reasonable cost of carrying its deferral balance is equivalent to the rates paid on U.S. Treasury securities. In addition, such a proposal poses a number of procedural issues. Would adoption of the procedures described by Staff require that a new, individual carrying cost be assigned to each new deferral? Would a single carrying charge rate apply to the combined balance of several deferrals? To establish the carrying charge rate, won't the Commission have to estimate how long the balance will take to amortize in order to apply an appropriate treasury rate?

In the final analysis, Staff's proposed method is complicated, arbitrary and is not based on any factual analysis of Idaho Power's actual cost of capital incurred to carry a deferral balance.

Conclusion

Idaho Power's carrying-cost on its deferral balances is a combination of the costs of both equity and debt. It would be inconsistent with years of precedent and unreasonable for the Commission to parse out the Company's lowest capital cost and assign that portion of the Company's total capital cost exclusively to the expenses included in the deferral balance. The actual cost that Idaho Power will incur to carry the deferral balance over the extended period of time it will take for Idaho Power to recover its expenditures in the deferral balance is best replicated by the use of the Company's authorized rate of return as the carrying charge.

DATED this 16th day of March, 2006.

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CERTIFICATE OF SERVICE

I HEREBY CERTIFY that on this 16th day of March, 2006, I served a true and correct copy of the within and foregoing IDAHO POWER COMPANY'S INITIAL COMMENTS – PHASE 2, upon the following named parties by the method indicated below, and addressed to the following:

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