ITEM NO. CA10

PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: September 8, 2015

REGULAR ____ **CONSENT** X **EFFECTIVE DATE** N/A

DATE: August 28, 2015

TO: Public Utility Commission

FROM: Matt Muldoon MJM

THROUGH: Jason Eisdorfer and Marc Hellman JE MH

SUBJECT: IDAHO POWER COMPANY: (Docket No. UF 4293) Requests authority to issue up to $450M aggregate simultaneous short-term borrowings and to renew a supporting credit facility.

STAFF RECOMMENDATION:

The Commission should approve Idaho Power Company's (Idaho Power or Company) application subject to the following conditions and reporting requirements:

1. Authorization Limit
   A. Total borrowings under committed unsecured lines of credit, extensions of existing or new lines of credit, and uncommitted credit facilities under this authority from all financial or other institutions or individuals (hereafter referenced collectively as Credit Facilities) shall not exceed and shall not guarantee activity described in (B) below in excess of $450 million (M) at any one time outstanding;[1]
   B. Aggregate loans, promissory notes, commercial paper, fixed- or floating-rate debt or other borrowings or obligations, whether of fixed maturity or rolled-over, and inclusive of all costs of any swap or hedging activities (hereafter referenced collectively as Borrowing Activity) authorized by this authority shall not exceed a total of $450M at any one time outstanding; and

[1] Should market conditions be such that it is less costly or otherwise necessary to arrange for a larger $500M Credit Facility than to arrange for an up to $450M facility as specified, the Company would have the flexibility to arrange for such a larger Credit Facility, but the use of the facility would be restricted as described herein.

C. The sum of all amounts drawn from Credit Facilities in (A) and Borrowing Activity in (B) under this authority will not, at any one time, exceed $450M outstanding.

2. Withdrawal of Prior Authorization

Authority for Borrowing and Credit Facilities Activity granted in Order No. 11-333 (see below) is withdrawn effective 60 calendar days from the date of an authorizing Order in this Docket, if no request for rehearing or reconsideration of such an Order in this Docket is received within this 60-day period. In no event will the Company's short-term borrowing authorization under Order No. 11-333 and any order issued in this docket exceed $450M at any one time.

Order No.		Docket No.		Authorization
11-333	–	UF 4270	–	$450 Million[2]

3. Cost Requirements and Controls

Subsequent to an authorizing Commission order pursuant to this application, the Company may take actions described in Condition (1) without further Commission approval subject to Conditions stated herein, provided:

A. Credit Facility arrangements will not exceed the limits specified in 1(A) above and maximum component and aggregate fees as shown in Attachment A.

B. Borrowing Activity may be either discounted at the rate prevailing for comparable quality and maturity or interest bearing to be paid at maturity. Rates and charges will be no greater than that for utilities with like Credit Facilities and like credit ratings; however, profit to any commercial paper dealer or agent will not exceed 1/8th of one percent (0.125%) of the principal amount of each note.

Conditions (A) and (B) each incorporate the restriction that all costs of forward start or other derivative contracts associated with any issuance under the authority requested must be accomplished within the restrictions specified above.

4. Cost Competitive

The Company shall demonstrate that for all Credit Facilities and Borrowing Activity, the Company achieved arrangements that contemporaneously were:

A. Competitive; and

B. Cost effective.

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2 The Company confirmed in reviewing this public meeting memo that the new credit facility will replace that of Docket No. UF 4270, authorized by Order No. 11-333.

5. Timely Reporting

A. The Company will provide the Commission within 30 calendar days after any revolving credit facility has been signed: a copy of the executed credit agreement; and a report demonstrating that any fees, margins over underlying securities, interest rates, and both itemized and total expenses are consistent with the provisions in Condition (4) above. The Company will explain therein any fees in excess of usual and customary market ranges shown in Attachment A.

B. The Company shall report on the status of credit facilities and issuances under this authority as of the end of each calendar year, for all or part of which this authority is in effect, to arrive at the Commission in paper and electronic spreadsheet form by April 30 of the following year.[3] The Company will include a summary of activity within the prior calendar year; quarterly and end-of-year outstanding balances, letters of credit issued, interest accrued, itemized and total fees paid (showing the basis of each); and where applicable an explanation of the Company's choice of debt type, proportion of fixed- versus floating-rate debt for given maturities; and, how any hedging activities best fit prevailing conditions, objectives, and expectations.

C. The Company will notify the Commission in writing within 30 calendar days of each time the Company extends any Credit Facility or Borrowing Activity where the extension terminates after November 30, 2020.

No extension of any borrowings or facilities is allowed beyond November 30, 2022, as provided for in Condition (7).

D. The Company will notify the Commission in writing within 30 calendar days after each election by the Company to enlarge its new Credit Facility beyond $300M initially, and beyond each successive higher level thereafter, none of which higher levels are to exceed $450M, except as provided in footnote (1).

E. The Company will notify the Commission in writing within 30 calendar days after any transaction is implemented requiring the Company to exceed cost limits provided in Condition (3) regarding:

i. The prevailing market conditions and causes of the higher costs; and

ii. The steps taken by the Company to minimize costs in this circumstance.

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3 This timeframe allows the Company to coordinate annual Commission and SEC reporting. Staff considers annual reporting is of sufficient frequency versus the semiannual reporting required for the prior credit facility authorized as noted in footnote (2).

6. Termination of Authority

Realization of either following condition will terminate any authority granted in an Order issued pursuant to this application:

A. The Company's credit ratings fall below Investment Grade[4] as determined by either Standard & Poor's (S&P)[5] or Moody's.[6]

B. Termination date is reached inclusive of any extension noted in Condition (7).

7. Authorization Date(s)

Provided all conditions and reporting requirements are fulfilled, authorization under an Order issued pursuant to this application will remain in effect for approximately five (5) years, terminating on November 30, 2020.

The Company may extend Credit Facilities and Borrowing Activities in compliance with Condition (5-C):

A. One year beyond November 30, 2020, to November 30, 2021; and separately

B. One additional year to November 30, 2022.

In all cases authorization will end on or before November 30, 2022.

8. Reserved Judgment Regarding Reasonableness

The Commission will reserve judgment on the reasonableness for ratemaking purposes of the Company's capital costs, capital structure, and the commissions and expenses incurred for Credit Facilities and Borrowing Activity. The Company will be required in future rate proceedings to show that capital costs and capital structure; maturities' concentration; Credit Facilities and Borrowing Activity commissions, use, expenses and fees, and other factors are just and reasonable on both component and aggregate bases.[7]

Approval of this application and the conditions and requirements herein by the Commission does not constitute a precedent or finding as to whether any or all Credit Facilities or Borrowing Activity shall be treated as long-term debt for purposes of any minimum capital requirement pursuant to a Commission Order.

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4 Investment grade long-term debt is rated BBB– or better by S&P, or Baa3 or better by Moody's. A minimum rating from Fitch Ratings, a division of The Fitch Group, which is a majority-owned subsidiary of Fimalac, S.A., is not specified here. Staff finds it sufficient to rely on S&P and Moody's investment grade credit ratings.

5 S&P refers to Standard & Poor's, which is a subsidiary of The McGraw-Hill Companies.

6 Moody's refers to Moody's Investors Service, which is a division of Moody's Corporation.

7 The Company has the burden of proof to demonstrate its financing activities are just and reasonable.

ISSUE:

Should the Commission authorize Idaho Power to amend or renew a credit facility supporting up to $450 million aggregate simultaneous borrowings?

RULE:

Oregon Revised Statutes (ORS) 757.405, ORS 757.410(1), and ORS 757.415 provide that the Commission may regulate issuance of utility securities and set conditions of approval thereof.

DISCUSSION:

The Company filed an application on August 14, 2015, pursuant to ORS 757.405, ORS 757.410(1), and ORS 757.415;[8] and Oregon Administrative Rules (OAR) 860-027-0025[9] and 860-027-0030 for authority to replace an up to aggregate $450M Credit Facility – of up to five (5) year life (with up to two separate, cumulative, and optional one (1) year extensions) with a like new Credit Facility. Both the existing and requested replacement authorizations otherwise have like provisions for expansion up to $450M and like extensions of life options.

Staff's recommended controls maintain the Company's overall reporting burden and impose no new reporting requirements. To the extent possible, authorization hereunder would be self-contained and clear without reliance on external documentation.

Credit Facility in Support of Borrowing Activity:

The Borrowing Activity described in the application (supported by the proposed new Credit Facilities) appears to Staff to be identical in size and nature to that existing. The Company's committed unsecured lines of credit include an obligation to lend to the Company on demand. Idaho Power may also make arrangements for uncommitted or "as available" credit facilities at negotiated interest rates. Idaho Power can draw on credit lines for a fee determined in proportion to the size of the credit line, its utilization, and related factors. As noted in the application, the Company intends to secure commitments for new unsecured lines of credit or extensions of existing lines of credit.

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8 The Company filing references ORS Chapter 757, which Staff interprets as the Company referencing generally ORS 757.400 et sequentes (et seq.) and specifically those parts of ORS 757.400 cited in the body of this report.

9 OAR 860-027-0025 will only apply for Borrowing Activity involving debt of greater than one year maturity in compliance with ORS 757.415(3).

Collectively, the Credit Facility makes Company Borrowing Activity a more attractive proposition to pertinent markets and serves to increase the liquidity of existing Company debt. An ability to draw on Credit Facilities, if needed, generally serves to lower the cost of the Company's Borrowing Activity below that of actually drawing on the underlying lines of credit.

Clarification:

Approval of the Company's application does not directly authorize any short term borrowings with maturities of one year or less. Rather, consistent with ORS 757.415(c)(3), authorization hereunder allows for the refreshment of a broad array of Commission regulated securities and a credit facility that provides support for many financing methods not directly regulated by the Commission. When a portion of the potential of the credit facility is used to bolster short-term borrowings, unsecured letters of credit, or unsecured promissory notes or like other financial activities, that portion is not available to be drawn down on by the Company.

Timing:

Replacing this Credit Facility now would be usual and normal utility practice, reducing the risk and potentially higher cost of renewal if replacement was closer in time to exhaustion of the Company's existing authorizations, thereby avoiding replacement in potentially adverse conditions. At its option, the Company may amend and extend its existing Credit Facility in lieu of entirely replacing the facility authorized by Order No. 11-333. Staff's review of related credit agency analysis finds that Moody's and S&P address advance refreshment of this type of credit facility as "credit positive" or consistent with the rating agencies' expectations of good business practices.

Diversity of Sourcing:

The Company's Credit Facility will have one or more lead agents and a number of additional banks as participating agents, such that the loss of any one bank or agent should limit the impairment to the Company's access to credit markets.[10] The 2008 bankruptcy of Lehman Brothers highlighted the risk of concentrating Credit Facilities with a small number of counterparties.

Expenses:

The Company represents that it will endeavor to control costs to usual and customary level of expenses shown in its application. In no case will Idaho Power accept fees in excess of the Maximum Authorized component and aggregate levels shown in Staff Attachment A.

Use of Proceeds as Restricted by ORS 757.415:

The Company states that it may use proceeds for any or all of the following:

1. Construction, facility improvement, and maintenance programs;
2. Retirement or exchange of outstanding stock, bond, note or other debt issuances;
3. Reimbursement of the Company treasury for funds previously expended; and
4. Other purposes, as may be permitted by law.

The proposed Credit Facility and Borrowing activity would support usual and continuing utility purposes as described above, which is consistent with statutory requirements.[11]

The Company may draw down on the requested credit facility directly. However, the flexible capability to draw-down funds reduces the likelihood that Idaho Power will need to do so,[12] better controlling costs for both the Company and ratepayers.

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[10] "Lehman Brothers File for Bankruptcy as Credit Crisis Bites" by James Quinn, The Telegraph, Sept. 15, 2008, describes credit facility agent concentration risks. Staff accessed this article on Aug. 28, 2015, at: http://www.telegraph.co.uk/finance/newsbysector/banksandfinance/4676621/Lehman-Brothers-files-for-bankruptcy-as-credit-crisis-bites.html.

[11] The Company's stated intended uses mirror those allowable under ORS 757.415(1).

[12] Staff's premise is based on the following two S&P reports: "Idaho Power Company Major Rating Factors," by primary analyst Tony Bertinelli of S&P Research (2011); and "Methodology and Assumptions, Standard & Poor's Standardizes Liquidity Descriptors for Global Corporate Issuers," by primary analyst Emanuel Pelerin of S&P Global Credit Portal (2010).

Conclusion:

Renewal of the Company's Credit Facility as described herein may reduce cost for Idaho Power and ratepayers due to a smaller starting facility size with flexibility to expand as described herein. Authorization in early September as requested is consistent with rating agency expectation and usual utility best practice. Idaho Power has reviewed this memo and agrees with its findings.

PROPOSED COMMISSION MOTION:

The Company's application for authority to amend or renew a credit facility supporting up to $450 million aggregate simultaneous borrowings be approved subject to Staff's conditions and reporting requirements.

Attachments:
Attachment A: Maximum Credit Facility Fees

Attachment A

Maximum Credit Facility Fees

Credit Facility Fees	Low Market	High Market	Expected	Maximum Authorized
Arrangement Fee Paid to Lead Agents	0.10%	0.20%	0.20%	**0.25%**
Up-Front Agent Fees Paid to All Agents	0.10%	0.15%	0.15%	**0.25%**
Annual Commitment Fees Paid to All Agents	0.15%	0.25%	0.175%	**0.25%**
Annual Administrative Fees Paid to Lead Agents	$15,000	$30,000	$25,000	**$75,000**
Applicant Legal Fees	$30,000	$75,000	$50,000	**$75,000**
Agent Legal Fees	$30,000	$75,000	$50,000	**$75,000**
Miscellaneous Expenses	$15,000	$25,000	$20,000	**$75,000**
*Principal Supported (Millions)	$300	$450	$300	**$500**
Aggregate Fees and Charges	$1,140,000	$2,905,000	$1,720,000	**$4,050,000**

Note 1: Credit Facility and Credit Agreement are interchangeable terms herein

Note 2: Fee percentages are applied to the principal amount in effect, starting at $300,000,000 and expandable to $450,000,000. This flexibility to expand the Credit Facility may be referred to as an accordion feature.

Exception: When aggregate market fees applied to a credit facility able to support $500 million aggregate principal outstanding are less than for a like $450 million credit facility, $500 million is authorized, subject to controls herein.