ORDER NO 09-065

ENTERED 02/26/2009

BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UM 1147

In the Matter of PUBLIC UTILITY COMMISSION OF OREGON Staff Request to Open an Investigation Related to Deferred Accounting.	)))))))	ORDER

DISPOSITION: INTEREST RATE FOR AMORTIZED DEFERRED ACCOUNTS AND GUIDELINES CLARIFIED

On May 22, 2008, the Public Utility Commission of Oregon (Commission) entered Order No. 08-263. Order No. 08-263 was entered in the third phase (Phase III) of Docket UM 1147. After the Commission determined, in Order No. 06-507 entered in the second phase of the docket, that a rate other than a utility's authorized rate of return (AROR) should be applied to deferred accounts during the period of amortization, the Commission opened Phase III to determine what that rate should be. On June 25, 2008, PacifiCorp, dba Pacific Power (Pacific Power or the Company), filed a Motion for Clarification of Order No. 08-263 (Motion for Clarification).

The Motion for Clarification finds a conflict between the following out-of-context quotes in Order No. 08-263:

1) "The Blended Treasury Rate in effect when the Commission authorizes amortization of a deferred account shall be applied to the deferred account beginning on the date of the Commission's approval of the amortization and continuing throughout the entire period of amortization;"

and

2) "The principle is the same: an authorized interest rate for amortized deferred accounts may be adjusted at any time."

Pacific Power represents that these two quotes make it unclear whether the interest rate applied to an amortized deferral will be fixed for the period of amortization, or subject to change at any time. Pacific Power asserts:

> The Order seems to require a change in the current practice of updating the interest rate applied to amortizing deferred accounts whenever there is a change in AROR by stating that the interest rate will be in effect for the entire amortization period, which may exceed one year. However, the order also implies that the interest rate could change at any time.

CLARIFICATION

Historically, a utility's deferred accounts earned interest from the beginning of deferral through the end of amortization at that utility's authorized rate of return (AROR), as approved in the utility's most recent general rate case. A deferred account's interest rate changed, therefore, upon any change to the utility's AROR. As a utility may file a general rate case with the Commission or the Commission may initiate a general rate case at any time, the AROR calculation was subject to change at any time. Therefore, the interest rate on a deferred account in amortization was also subject to change at any time.

In the third phase of Docket UM 1147, we addressed the question of whether we should apply a new interest rate to deferrals already in amortization, or whether a new interest rate should be applied only to deferred accounts authorized for amortization at a date after an order adopting a new interest rate. In Order No. 08-263, we determined that the new interest rate adopted therein should be applied to *all* amortized deferred accounts, regardless of the timing of amortization. We did so based upon the longstanding principle that the interest rate for an amortized deferred account is subject to change. With regard to our ability to alter the interest rate applied to a deferred account that is already in amortization, we did not discern a theoretical difference between modifying the structure of the interest rate formula and changing the inputs to an existing formula. In Order No. 08-263, we stated:

> We find that the modified Blended Treasury Rate adopted herein should be applied as of sixty calendar days after the date of this order to all deferred accounts in amortization now or in the future, including the balances in existing deferred accounts already in amortization, whether such accounts are accruing prospective deferrals or not. We agree with Staff that applying the new interest rate to any balances in existing deferred accounts already in amortization is not theoretically much different than the current practice of applying a new AROR to balances in deferred accounts already in amortization when a utility's AROR is modified in a general rate case. The principle is the same: an authorized interest rate for amortized deferred accounts may be adjusted at any time. We are not limited to prospective adjustment only.

As we did not renounce the principle that the interest rate for an amortized deferred account is subject to change, we may rely on it again to alter the calculation that we established in Order No. 08-263. For example, if the utilities acquire better information about the financing costs for amortized deferred accounts over the next few years, we might find it appropriate to once again address what the appropriate interest on amortized deferred accounts should be. Indeed, we anticipated such future action in Order No. 08-263, stating: "[u]nder the circumstances, we find it appropriate to adopt a new interest rate for all amortized deferred accounts on a policy basis, with the understanding that the rate can be adjusted in the future, as actual experience and data better…inform all concerned." Whether a changed calculation would be applied to existing deferrals already in amortization, however, would be a question to consider at the time we were deliberating the changed calculation.

We did not anticipate that we would update the interest rate on a deferred account already in amortization. Instead, we intended that a Blended Treasury Rate would be established each year[1] and would be applied to any deferred account authorized in that year for amortization for the duration of the amortization period. Thus, in Order No. 08-263, we stated: "The Blended Treasury Rate in effect when the Commission authorizes amortization of a deferred account shall be applied to the deferred account beginning on the date of the Commission's approval of the amortization and continuing throughout the entire period of amortization."

Fixing the interest rate on an amortized deferred account at the date of amortization provides a utility with the opportunity to finance that account at a commensurate rate. This approach is consistent with our conclusion in Order No. 06-507 that the amortized portion of a deferred account is a short-term, fixed and recoupable fund that may be separately financed from other utility accounts.

To be clear, when a deferred account is authorized for amortization, the interest rate applied to the deferred account will be the Blended Treasury rate approved for that year. The interest rate on that amortized deferred account will not change throughout the period of amortization, even when the Blended Treasury Rate is updated each January. The interest rate on a deferred account in amortization is *subject to change*, however, should we decide sometime in the future to change the calculation of the interest rate and to apply the new calculation to deferred accounts already in amortization. Such decisions would be made with significant notice and deliberation, however.

[1] We determined, in Order No. 08-263, that the Blended Treasury Rate shall be calculated by the tenth day of January each year, based on Treasury rates published on the first two Thursdays of the preceding December. In Order No. 08-371, we adopted a Blended Treasury Rate of 4.27 percent for 2008.

ORDER

IT IS ORDERED that the intent of Order No. 08-263 is clarified as discussed above.

Made, entered, and effective FEB 26 2009.

Lee Beyer
Chairman

John Savage
Commissioner

Ray Baum
Commissioner

A party may request rehearing or reconsideration of this order pursuant to ORS 756.561. A request for rehearing or reconsideration must be filed with the Commission within 60 days of the date of service of this order. The request must comply with the requirements in OAR 860-014-0095. A copy of any such request must also be served on each party to the proceeding as provided by OAR 860-013-0070(2). A party may appeal this order by filing a petition for review with the Court of Appeals in compliance with ORS 183.480-183.484.