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October 3, 2007

## VIA ELECTRONIC FILING

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PO Box 2148  
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**Re: Docket No. UM 1147**

Enclose for filing in the above-referenced docket are and original and one copy of the Reply Comments of Idaho Power and Pacific Power.

A copy of this filing has been served on all parties to this proceeding as indicated on the attached certificate of service.

Very truly yours,

Wendy L. McIndoo

cc: Service List

**CERTIFICATE OF SERVICE**

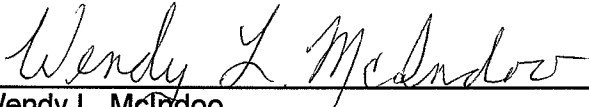
I hereby certify that I served a true and correct copy of the foregoing document in Docket UM 1147 on the following named person(s) on the date indicated below by email and first-class mail addressed to said person(s) at his or her last-known address(es) indicated below.

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DATED: October 3, 2007.

  
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**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.

**REPLY COMMENTS OF IDAHO  
POWER AND PACIFIC POWER**

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**I. INTRODUCTION**

Idaho Power Company ("Idaho Power") and PacifiCorp, dba Pacific Power ("Pacific Power") (together the "Joint Utilities") hereby submit their Reply Comments in Phase III of this docket. In these comments, the Joint Utilities respond to Staff's proposal that a blended 1, 3, 5 year treasury rate ("Blended Treasury Rate") be applied to deferred accounts after they have been approved for amortization. The Joint Utilities explain why Staff's Proposal should be rejected, and argue instead that each utility's long-term cost of debt should be accepted as the "default" rate for amortized deferrals. In addition, the Joint Utilities recommend that, in view of Idaho Power's special circumstances, in the case of deferred accounts that will not be recovered within three years, Idaho Power should be allowed an opportunity to demonstrate that its authorized rate of return ("AROR") should be applied.

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**II. DISCUSSION**

**Question No 1: What is the rate of return that should be applied to deferral accounts after amortization is granted?**

In previous comments issued in this docket both Pacific Power and Idaho Power have addressed the correct way to establish the cost of the money included in deferred accounts. In particular, the Joint Utilities have explained that the cost of money included in

1 deferred accounts is the same as the cost of money for all utility expenditures—the blend of  
2 their costs of debt and equity which is established in the utilities' general rate proceedings.  
3 See Idaho Power's Initial Comments Phase II, pp 3-4, Pacific Power Opening Comments  
4 Phase III, pp 2-3. It is for this reason that they have argued that their authorized rate of  
5 return should be applied to deferred accounts, both before and after amortization. The Joint  
6 Utilities acknowledge that the Commission wishes to apply a different rate to deferred  
7 amounts during amortization. However, the Blended Treasury Rate proposed by Staff is not  
8 appropriate.

9 Staff proposes use of the Blended Treasury Rate asserting that this rate (1) "better  
10 reflects the risk associated with deferred accounts approved for amortization;" and (2) "is  
11 consistent with how a prudent utility could finance these amounts." Staff is wrong on both  
12 counts.

13 *First, the Blended Treasury Rate does not reflect the risks associated with deferred*  
14 *accounts approved for amortization.*

15 Treasury rates in general, regardless of their term, are typically regarded to reflect a  
16 risk of nonpayment that is virtually zero—that is, a near guaranteed recovery from the United  
17 States government. Staff's comments suggest that the risk of nonpayment of amortized  
18 amounts is similarly close to zero. This assumption is fundamentally flawed and without  
19 basis. It is true that once deferred expenses have been approved for amortization, the risk  
20 associated with recovering any specific deferred account decreases substantially. However,  
21 recovery of amortized deferrals is by no means guaranteed. The utility's earnings stream to  
22 service debt is still subject to weather, power costs and business risks. Moreover, the  
23 Commission statutes expressly allow the Commission to rescind or amend its orders at any  
24 time, and amortization orders are no exception. ORS 756.568. Thus, future Commissions  
25 are always free to amend or rescind an amortization order. Indeed, as is the case with all  
26 utility expenditures, the utility is never guaranteed the recovery of any specific cost but

1 rather is accorded only a reasonable opportunity to recover its costs. Of course, it is this  
2 reasonable opportunity that is reflected in the utility's AROR. Therefore, the lower risk  
3 implicit in the use of the Blended Treasury Rate has no reasonable relationship to the  
4 utility's risk of recovering deferred amounts.

5 *Second, the Blended Treasury rate is not consistent with the costs utilities will incur*  
6 *to finance deferral accounts through the amortization period.*

7 Staff's position rests on the assumption that the utilities finance each deferral  
8 account separately, and at rates that correspond to the length and nature of the  
9 amortization. As all of the utilities have explained in this docket, this simply is not the case.  
10 At the point when the expense is incurred, the utility does not know for certain whether the  
11 amounts it is expending will be approved for deferral—much less the length of time over  
12 which the funds will be amortized.<sup>1</sup> Thus the idea that utilities finance individual deferred  
13 accounts using funds that correspond to amortization schedules is misguided.

14 Moreover, even if utilities were able to separately finance deferred accounts after  
15 they have been amortized, they would not have access to rates as low as the Blended  
16 Treasury Rate. Even Staff appears to recognize that a utility would never have access to a  
17 one year Treasury Rate. And yet despite that fact, Staff has relied on a one-year rate in  
18 producing its blended rate.

19 Overall, the Joint Utilities are puzzled by Staff's approach, which recommends a  
20 financing rate that has no relation to the ways in which utilities fund their operations.  
21 Instead, the Joint Utilities urge the Commission to adopt a rate that reflects actual utility  
22 practice. Given that the Commission has determined to adopt a rate for post-amortization  
23 deferrals other than the utilities' AROR, a more reasonable proxy for the cost the utilities will  
24 incur to carry deferral balances is the utilities' cost of long-term debt. That rate is based

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26 <sup>1</sup> A good example is Idaho Power's excess power supply expense.

1 upon each company's actual financing costs and has been rigorously analyzed and  
2 approved by the Commission.

3 **Question No. 3: Are there exceptions that should apply to Idaho Power?**

4 In earlier phases of this docket, Idaho Power has pointed out that its situation with  
5 respect to its deferral balances is unique among Oregon utilities. Idaho Power has  
6 approximately 18,000 customers in Oregon. Its 2006 normalized revenue in Oregon was  
7 approximately 27 million dollars. These relatively low Oregon revenues, coupled with the  
8 amortization cap included in ORS 757.259, substantially limits Idaho Power's ability to  
9 recover deferred costs in customer rates over a reasonable amount of time. For example,  
10 Idaho Power was allowed to defer over four million dollars in excess power costs in its  
11 Oregon jurisdiction incurred in 2001. Idaho Power began deferring those costs in May of  
12 2001, and anticipates that these amounts will be amortized through 2010. In addition, Idaho  
13 Power has filed for excess power cost deferrals in each of the last three years. Any of these  
14 excess costs that are ultimately approved for amortization will not be recovered by the  
15 company until after 2010. For this reason, Idaho Power has argued that a general rule  
16 adopted by the Commission for all utilities will not address its specific circumstances.

17 Staff opposes providing an exception from the general rule and instead recommends  
18 that, in the case of amortization periods that exceed three years that Idaho Power should be  
19 given the opportunity to argue for a different interest rate. Given that it is possible that Idaho  
20 Power's deferral balances will not always and forever be amortized over such lengthy time  
21 periods, the Joint Utilities are comfortable with a framework that considers exceptions from  
22 the general rule only for those deferral accounts amortized over three or more years. In  
23 addition, the Joint Utilities are comfortable with Staff's requirement that Idaho Power be  
24 required to request a different interest rate. However, the Joint Utilities differ with Staff's  
25 proposal in that the Joint Utilities are arguing for a default rate set at the utilities' long-term  
26 cost of debt. Therefore, the Joint Utilities contemplate that the interest rate for amortized

1 deferral accounts in all cases be assumed to be set at the long term cost of debt. The  
2 exception adopted in this case would allow Idaho Power, so long as its deferrals continue to  
3 be amortized over a three or more year time period, to request that its AROR be applied.

4 The Joint Utilities point out that Staff's recommendation includes an opportunity for  
5 all utilities to request a rate other than that adopted in this docket, in the event that such rate  
6 would not "make the utility whole." Staff Opening Comments Phase III, p. 3. The Joint  
7 Utilities urge the Commission to adopt this recommendation.

8 **Question No. 5: How should the rate of return be set for accounts under the**  
9 **provisions of the 1980 Act?**

10 I Staff argues that the rate of return for accounts under the provisions of the 1980 Act  
11 should be the same as for all other deferrals. Staff Opening Comments Phase III, p. 5. The  
12 Joint Utilities disagree.

13 As noted in Pacific Power's initial comments, Section 5(c) of the Regional Power Act  
14 governs the administration of the exchange program and preempts state law. Section  
15 5(c)(3) requires the cost benefits of the program to be passed directly through to residential  
16 loads. Accordingly, the Joint Utilities pass these cost benefits through to residential  
17 customers for any month that the exchange program account has a positive balance instead  
18 of waiting for Commission authorization to amortize these amounts.<sup>2</sup> Deferred accounting of  
19 such amounts,--even though ORS 757.259(2)(b) allows it,--potentially conflicts with the  
20 federal requirement.

21 The Joint Utilities have never applied for and the Commission has never entered an  
22 order approving deferred accounting for this program. Thus because exchange payments  
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24 <sup>2</sup> From an operational perspective, the Pacific Power uses a balancing account to track the cost  
25 benefits passed to customers for the exchange program. The Company applies an interest rate that is  
26 tied to the primary investment account used by the Company to invest excess cash. This interest rate  
is based on the Company's revolving credit terms for a one month period.



1 are not included in deferred accounts, these expenditures should not be subject to any new  
2 policy adapted in this docket.

3 **Question No. 7: Should the newly established post-amortization rates of**  
4 **return apply to existing deferrals or should it be applied on a prospective**  
5 **basis?**

6 Staff argues that the interest rate adopted by the Commission in this docket apply to  
7 both prospective and existing deferrals, including existing deferrals for which amortization  
8 has already been approved. However, Staff has provided no analysis that would suggest  
9 that a retrospective application of its order in this case would be appropriate. The Joint  
10 Parties reiterate the points made in Pacific Power's Initial Comments that there is no  
11 overwhelming policy reason why the Commission should upset the legitimate expectation of  
12 the parties that the interest rate set at the time of amortization should prevail. It is significant  
13 that in approving one recent deferral, the Commission specifically ordered that the carrying  
14 rate adopted in this phase of the docket be applied to deferred amounts during amortization.  
15 See, *eg.* Order No. 07-119, issued in UM 1198, Idaho Power's Application for authorization  
16 to defer excess power costs incurred in 2005. In so doing, the Commission implicitly  
17 recognized that, in the absence of such notification, it would be improper for the  
18 Commission to apply its new rate retrospectively. Thus, in the absence of specific  
19 notification, the Commission's Order in this docket should be applied on a prospective basis  
20 only.

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**III. CONCLUSION**

For all of the above reasons, the Joint Utilities urge the Commission to issue an order consistent with these Reply Comments.

DATED: October 3, 2007.

FOR IDAHO POWER

MCDOWELL & RACKNER PC



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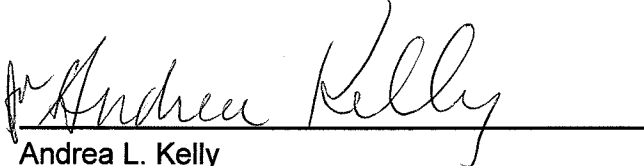
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