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April 22, 2009

VIA ELECTRONIC FILING

PUC Filing Center
Public Utility Commission of Oregon
PO Box 2148
Salem, OR 97308-2148

Re: Docket No. UM 1147

Enclosed for filing in the above-referenced docket are the original and five copies of the Stipulation of Staff and Idaho Power and the Joint Explanatory Brief in support of the Stipulation.

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 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: April 22, 2009



Wendy McIndoo

1 **BEFORE THE PUBLIC UTILITY COMMISSION**
2 **OF OREGON**

3 **UM 1147**

4 In the Matter of

5 PUBLIC UTILITY COMMISSION OF
6 OREGON

7 Staff Request to Open an Investigation
8 Related to Deferred Accounting.

STIPULATION

9 This Stipulation resolves all issues among the parties to this Stipulation related to
10 the interest rate to be applied to Idaho Power Company's ("Idaho Power" or the
11 "Company") deferred accounts in amortization for which an exception to application of the
12 Modified Blended Treasury Rate has been authorized.

13 **PARTIES**

14 1. The parties to this Stipulation are Idaho Power and Staff of the Public Utility
15 Commission of Oregon ("Staff") (together, the "Parties").

16 **BACKGROUND**

17 2. On May 22, 2008, the Commission issued Order No. 08-263 in which it
18 adopted a new rate to be applied to deferred accounts during amortization—an average of
19 the rates for one-, three-, and five-year Treasury securities plus 100 basis points ("Modified
20 Blended Treasury Rate").¹ The utility's authorized rate of return remains the applicable
21 interest rate for balances in deferred accounts not yet authorized for amortization.² The
22 Commission ordered that as of 60 calendar days after May 22, 2008, utilities must apply
23 the Modified Blended Treasury Rate to balances of all deferred accounts in amortization, as
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26 ¹ *Re. Public Utility Commission of Oregon Staff Request to Open an Investigation Related to Deferred
Accounting*, Docket UM 1147, Order No. 08-263 at 15 (May 22, 2008).

² *Id.* at 14.

1 of the date of the Order or in the future, including balances in existing deferred accounts
2 already in amortization.³

3 3. The Commission also ordered that Staff or any utility may request the
4 application of an interest rate different from the Modified Blended Treasury Rate for specific
5 deferred accounts in amortization by arguing that the circumstances or evidence warrant
6 the application of a different rate.⁴ The Commission ordered that for existing deferred
7 accounts being amortized, Staff or any party may immediately apply for an exception to the
8 application of the Modified Blended Treasury Rate.⁵ The Commission "anticipated that a
9 request for an exception would occur at the same time as a request for amortization."⁶

10 4. On July 21, 2008, Idaho Power filed a Petition for Exception ("Petition"),
11 requesting the Commission authorize application of the Company's authorized rate of
12 return ("AROR") to its existing deferred accounts in amortization. Staff supported Idaho
13 Power's Petition in part.⁷ Staff requested that the Commission apply the Modified Blended
14 Treasury Rate during the first three years of amortization of excess net variable power
15 costs and apply Idaho Power's authorized rate of return during the remaining period of
16 amortization. Idaho Power recommended that the Commission reject Staff's proposed
17 modification to Idaho Power's request.⁸

18 5. On September 23, 2008, the Commission issued its Order on Idaho Power's
19 Petition.⁹ The Commission found the Modified Blended Treasury Rate to be inconsistent

20

21 ³ *Id.* at 17. The Commission's language on this point excludes those accounts for which an exception
has been applied for and authorization received.

22 ⁴ *Id.* at 16.

23 ⁵ *Id.*

24 ⁶ *Id.*

25 ⁷ *Re. Public Utility Commission of Oregon Staff Request to Open an Investigation Related to Deferred
Accounting*, Docket UM 1147, Staff's Response to Idaho Power's Petition for Exception (Aug. 5, 2008).

26 ⁸ *Re. Public Utility Commission of Oregon Staff Request to Open an Investigation Related to Deferred
Accounting*, Docket UM 1147, Idaho Power's Reply to Staff's Response to Petition for Exception
(Aug. 15, 2008).

⁹ *Re. Public Utility Commission of Oregon Staff Request to Open an Investigation Related to Deferred
Accounting*, Docket UM 1147, Order No. 08-477 (Sept. 23, 2008).

1 10. Staff will update the Modified Blended Exception Rate by January 10 of each
2 year. Each year the Company will apply the updated Modified Blended Exception Rate to
3 deferred accounts for which the Company receives authorization in that year to begin
4 amortization and applies and receives authorization for an exception to the general
5 applicability of the Modified Blended Treasury Rate.

6 11. The Parties agree to submit this Stipulation to the Commission and request
7 that the Commission approve the Stipulation as presented. The Parties agree that the
8 adjustments and the rates resulting from their application are sufficient, fair, just, and
9 reasonable.

10 12. This Stipulation will be offered into the record of this proceeding as evidence
11 pursuant to OAR 860-014-0085. The Parties agree to support this Stipulation throughout
12 this proceeding and any appeal, provide witnesses (if necessary) to sponsor this Stipulation
13 at the hearing, and recommend that the Commission issue an Order adopting the
14 settlements contained herein.

15 13. If this Stipulation is challenged by any other party to this proceeding, the
16 Parties agree that they will continue to support the Commission's adoption of the terms of
17 this Stipulation. The Parties agree to cooperate in cross-examination and put on such a
18 case as they deem appropriate to respond fully to the issues presented, which may include
19 raising issues that are incorporated in the settlements embodied in this Stipulation.

20 14. The Parties have negotiated this Stipulation as an integrated document. If
21 the Commission rejects all or any material portion of this Stipulation or imposes material
22 additional conditions in approving this Stipulation, any Party disadvantaged by such action
23 shall have the rights provided in OAR 860-014-0085 and shall be entitled to seek
24 reconsideration or appeal of the Commission's Order.

25 15. By entering into this Stipulation, no Party shall be deemed to have approved,
26 admitted, or consented to the facts, principles, methods, or theories employed by any other

1 Party in arriving at the terms of this Stipulation, other than those specifically identified in this
2 Stipulation, including attachments. No Party shall be deemed to have agreed that any
3 provision of this Stipulation is appropriate for resolving issues in any other proceeding,
4 except as specifically identified in this Stipulation.

5 16. This Stipulation may be executed in counterparts and each signed
6 counterpart shall constitute an original document.

7 17. This Stipulation is entered into by each party on the date entered below such
8 Party's signature.

9 18.

10 STAFF

IDAHO POWER

11

By: [Signature]

By: _____

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Date: April 22, 2009

Date: _____

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1 Party in arriving at the terms of this Stipulation, other than those specifically identified in this
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3 provision of this Stipulation is appropriate for resolving issues in any other proceeding,
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STAFF

IDAHO POWER

By: _____

By:  _____

Date: _____

Date: April 22 2009

1 **ATTACHMENT A**

2 **Method of calculating the Modified Blended Exception Rate**

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4 The Modified Blended Exception Rate is calculated based on the value of the
5 Modified Blended Treasury Rate (see Order No. 08-263) and the average of the yield on
6 Moody's seasoned Baa bond index on the first two Thursdays of December, as published by
7 the Federal Reserve in Table H.15.¹³ Moody's Baa index was chosen due to the composite
8 rating for this index (Baa) being more representative currently of Oregon-regulated energy
9 investor-owned utilities than the alternative Moody's Aaa index. Per Moody's, obligations
10 rated Baa are subject to moderate credit risk. They are considered medium-grade and as
11 such may possess certain speculative characteristics.

12 Additionally, the calculation is based on the three-year average maturity of the
13 Modified Blended Treasury Rate; the nominal 30-year maturity¹⁴ of issues in Moody's Baa
14 index; and the target 10-year maturity for the Modified Blended Exception Rate. The
15 10-year maturity target was selected so as to provide a rate corresponding with longer
16 amortization periods than those presumed to be associated with use of the Modified
17 Blended Treasury Rate, which has an average three-year maturity due to the simple
18 average of Treasury securities having one-, three-, and five-year maturities; i.e., $(1+3+5)/3$.

19 The mechanics of the Modified Blended Exception Rate calculation are the familiar
20 algebraic methods used to evaluate a linear function in two dimensional space given two
21 points on the line.

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25 ¹³ See <http://www.federalreserve.gov/Releases/H15/current/h15.pdf> for an example of this report.

26 ¹⁴ See the St. Louis Federal Reserve Bank's description at
<http://research.stlouisfed.org/fred2/series/DBAA?cid=119>

1 The calculation:
2 Modified Blended Exception Rate =
3 Modified Blended Treasury Rate +
4 $7/27 \times (\text{Blended Moody's Baa Rate} - \text{Modified Blended Treasury Rate})$

5 where:

6 Blended Moody's Baa Rate refers to the average of the two Moody's Baa index
7 yields. Note that the calculation result is rounded to the nearest 1/100 of one percent.

8 The numerator value of 7 in the fraction 7/27 refers to the difference in maturities
9 between the target 10-year maturity and the Modified Blended Treasury Rate's three-year
10 average maturity; the denominator value of 27 in the same fraction refers to the difference
11 between the Blended Moody's Baa Rate's nominal 30-year maturity and the Modified
12 Blended Treasury Rate's three-year average maturity.

13 The calculation, using values from December, 2008, is illustrated below:

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15 $3.78\% = 2.05\% + 7/27 (8.71\% - 2.05\%)$

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1 **BEFORE THE PUBLIC UTILITY COMMISSION**
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4 In the Matter of

5 PUBLIC UTILITY COMMISSION OF OREGON

6 Staff Request to Open an Investigation Related
7 to Deferred Accounting.

JOINT EXPLANATORY BRIEF

8 This brief explains and supports the Stipulation dated April 22, 2009, in this
9 proceeding between Idaho Power Company ("Idaho Power" or "Company") and Staff of the
10 Public Utility Commission of Oregon ("Staff") (together, the "Parties"). The Stipulation
11 resolves all issues among the Parties related to the interest rate to be applied to Idaho
12 Power's deferred accounts in amortization for which an exception to application of the
13 Modified Blended Treasury Rate has been authorized.

14 **I. BACKGROUND**

15 On May 22, 2008, the Public Utility Commission ("Commission") issued Order
16 No. 08-263, in which it adopted a new rate applicable to deferred accounts during
17 amortization—an average of the rates for one-, three-, and five-year Treasury securities plus
18 100 basis points ("Modified Blended Treasury Rate").¹ The utility's authorized rate of return
19 remains the applicable interest rate for balances in deferred accounts not yet authorized for
20 amortization.² The Commission ordered that as of 60 calendar days after May 22, 2008,
21 utilities must apply the Modified Blended Treasury Rate to the balances of all deferred
22 accounts in amortization, as of the date of the Order or in the future, including balances in
23 existing deferred accounts already in amortization.³

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25 ¹ *Re. Public Utility Commission of Oregon Staff Request to Open an Investigation Related to Deferred*
Accounting, Docket UM 1147, Order No. 08-263 at 15 (May 22, 2008) ("Order No. 08-263").

26 ² *Id.* at 14.

³ *Id.* at 17. The Commission's language on this point excludes those accounts for which an exception
has been applied for and authorization received.

1 The Commission also ordered that Staff or any utility may request the application of
2 an interest rate different from the Modified Blended Treasury Rate for specific deferred
3 accounts in amortization by arguing that the circumstances or evidence warrant the
4 application of a different rate.⁴ The Commission ordered that for existing deferred accounts
5 being amortized, Staff or any party may immediately apply for an exception to the application
6 of the Modified Blended Treasury Rate.⁵ The Commission “anticipated that a request for an
7 exception would occur at the same time as a request for amortization.”⁶

8 On July 21, 2008, Idaho Power filed a Petition for Exception (“Petition”), requesting
9 the Commission authorize application of the Company’s authorized rate of return (“AROR”) to
10 its existing deferred accounts in amortization. Staff supported Idaho Power’s Petition in part.⁷
11 Staff requested that the Commission apply the Modified Blended Treasury Rate during the
12 first three years of amortization of excess net variable power costs and apply Idaho Power’s
13 AROR during the remaining period of amortization. Idaho Power recommended that the
14 Commission reject Staff’s proposed modification to Idaho Power’s request.⁸

15 On September 23, 2008, the Commission issued Order No. 08-477 on Idaho Power’s
16 Petition.⁹ The Commission found the Modified Blended Treasury Rate to be inconsistent with
17 the nature of Idaho Power’s existing amortized deferred accounts then in amortization.¹⁰ The
18 Commission also found that, while it would not adopt Staff’s recommendation to apply the
19 Modified Blended Treasury rate to the first three years of amortization of excess net variable
20 power costs, neither would it adopt Idaho Power’s proposal to apply the Company’s AROR to

21 ⁴ *Id.* at 16.

22 ⁵ *Id.*

23 ⁶ *Id.*

24 ⁷ *Re. Public Utility Commission of Oregon Staff Request to Open an Investigation Related to Deferred Accounting, Docket UM 1147, Staff’s Response to Idaho Power’s Petition for Exception (Aug. 5, 2008).*

25 ⁸ *Re. Public Utility Commission of Oregon Staff Request to Open an Investigation Related to Deferred Accounting, Docket UM 1147, Idaho Power’s Reply to Staff’s Response to Petition for Exception (Aug. 15, 2008).*

26 ⁹ *Re. Public Utility Commission of Oregon Staff Request to Open an Investigation Related to Deferred Accounting, Docket UM 1147, Order No. 08-477 (Sept. 23, 2008) (“Order No. 08-477”).*

¹⁰ *Id.*

1 existing deferred accounts in amortization.¹¹ The Commission directed Staff and Idaho
2 Power to work together to establish an interest rate appropriate to Idaho Power's existing
3 deferred accounts in amortization.¹²

4 As ordered by the Commission, the Parties met on two separate occasions by
5 teleconference. Based on these meetings, the Parties came to a tentative proposed
6 agreement on the appropriate interest rate applicable to Idaho Power's existing deferred
7 accounts in amortization. The Stipulation reflects this agreement.¹³

8 II. DISCUSSION

9 The terms of the Stipulation reflect the Parties' agreement that the interest rate the
10 Commission should apply to balances in Idaho Power's existing deferred accounts in
11 amortization is the Modified Blended Exception Rate.¹⁴ For 2009, the Modified Blended
12 Exception Rate is 3.78 percent.¹⁵ The Parties agree that the Company will apply this rate to
13 the Company's existing deferred accounts currently in amortization.¹⁶

14 The Parties agree that Staff will update the Modified Blended Exception Rate by
15 January 10 of each year.¹⁷ Each year the Company will apply the updated Modified Blended
16 Exception Rate to deferred accounts for which the Company receives authorization in that
17 year to begin amortization and applies and receives authorization for an exception to the
18 general applicability of the Modified Blended Treasury Rate.¹⁸

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21 ¹¹ *Id.*

22 ¹² *Id.*

23 ¹³ In accordance with OAR 860-014-0085(3), on February 26, 2009 Staff circulated both the Parties'
24 proposed interest rate applicable to Idaho Power's existing deferred accounts in amortization and the
25 method used in calculating the proposed rate among all parties in Docket No. UM 1147. Staff requested
26 that any party wishing to comment on the proposal do so by March 5, 2009. No party commented on or
objected to the proposed rate or method of calculation.

¹⁴ Stipulation ¶ 8. Attachment A to the Stipulation describes the method used to calculate this rate.

¹⁵ *Id.* at ¶ 9.

¹⁶ *Id.*

¹⁷ *Id.* at ¶ 10.

¹⁸ *Id.*

1 **A. The Stipulation Complies with Commission Order No. 08-477.**

2 In Order No. 08-477, the Commission found that the Modified Blended Treasury Rate
3 does not allow for sufficient recovery in light of the long-term nature of Idaho Power's
4 deferred accounts, and that the risk of recovery for existing deferred accounts is less than
5 that reflected in Idaho Power's AROR.¹⁹ The Modified Blended Exception Rate is a
6 compromise between the Company's AROR and the Modified Blended Treasury Rate and is
7 calculated to fall between these two rates in most envisioned economic environments. As a
8 result, it reflects the Commission's statement that the rate applied to Idaho Power's existing
9 deferred accounts in amortization should balance the long-term nature of Idaho Power's
10 existing deferred accounts in amortization and the lower risk of recovery applicable to
11 deferred accounts in amortization.²⁰ The Stipulation therefore appropriately resolves the
12 question of what interest rate to apply to Idaho Power's existing deferred accounts being
13 amortized as ordered by the Commission in Order No. 08-477.

14 **B. The Stipulation Will Result in Just and Reasonable Rates.**

15 The Stipulation represents a reasonable compromise of positions among the Parties
16 and will result in just and reasonable rates. The use of the Modified Blended Exception Rate
17 allows Idaho Power to use a rate that "appropriately reflects the financing periods and
18 financial risks associated with deferred accounts in amortization."²¹ The stipulated rate and
19 method of recalculating for future years thus ensure that Idaho Power's rate better matches
20 the long-term nature of its amortized deferred accounts and results in customer rates that fall
21 within the "range of reasonableness" for resolution of this issue.²²

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24 ¹⁹ *Id.*

²⁰ *Id.*

25 ²¹ See Order No. 08-263 at 15. See also *PacifiCorp's 2009 Rate Adjustment Clause Schedule 202*,
Docket UE 200, Order No. 08-548 at 2 (Nov. 14, 2008) (stipulating to O&M costs that are an average of
26 two results is a fair way to resolve a difference in figures).

²² See *Re US West*, Docket UM 773, Order No. 96-284 at 31 (Nov. 1, 1999).


1 **III. CONCLUSION**

2 For the reasons set forth above, the Parties respectfully request that the
3 Commission adopt the Stipulation.

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5 Dated: April 22, 2009

6 Respectfully submitted,

7 **MCDOWELL & RACKNER PC**

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