BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UM 1147 (Phase III)

In the Matter of PUBLIC UTILITY COMMISSION OF OREGON Staff Request to Open an Investigation Related to Deferred Accounting.	STAFF OPENING COMMENTS

In Phase II of this proceeding, the Commission directed Staff and parties to address what interest rate should apply to deferred accounts during amortization and how that interest rate should be established. The Commission noted that the parties should consider several questions, such as whether the interest rate should vary by utility or deferred account, whether any new rate determined in this docket should apply to deferred accounts currently being amortized, and whether any new rate should apply to amounts deferred under the Pacific Northwest Electric Power Planning and Conservation Act of 1980 ("the 1980 Act").

In these comments, staff will set forth its recommendation and also, address several issues informally compiled by the parties. In addressing the list of issues, staff will address the questions posed by the Commission and elaborate on the mechanics of its proposal.

Staff's recommendation is as follows:

- A blended 1-3-5 year Treasury Rate should apply to all deferred amounts after amortization is authorized
- For deferred amounts that will not be amortized in three years or less, utilities should have the opportunity to demonstrate to the Commission that the blended 1-3-5 year Treasury Rate will not make them whole, and that a different rate of return should apply
- The rate of return for deferred accounts approved for amortization will be reset each year, and the new rate will apply to accounts already being amortized, as well as deferred accounts approved for amortization within that calendar year.

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Issue No. 1: What is the rate of return that should be applied to deferred accounts after amortization is granted?

The Commission's order in Phase II makes clear that the Commission believes the utility's authorized rate of return is not commensurate with the risk associated with deferred amounts for which the utility has authorization to amortize and that applying the rate of return to such amounts is not necessarily consistent with manner in which these amounts are financed, or could be financed, by the utility.[1] Accordingly, staff's analysis focused on determining an interest rate that better reflects the risk associated with deferred amounts approved for amortization and is consistent with how a prudent utility could finance these amounts. Staff concludes that the blended 1-3-5 year Treasury Rate best satisfies these criteria. [2]

First, deferred amounts approved for amortization are distinct from costs for which the utility only has an opportunity to recover. Meaning, a utility is entitled, by Commission order, to recover amounts approved for amortization, which reduces the risk associated with these amounts to a very minimal amount. Second, deferred accounts in Oregon are often amortized over a period that does not exceed two years. Considering only these two factors leads to the conclusion that a short-term rate appropriate to compensate the utility for a near-guaranteed stream of dollars approved by the Commission. However, staff recommends a blended rate that includes terms longer than the typical amortization period for deferred accounts because each utility may not have access to Treasury rates for terms that mirror the term of amortization.

Meaning, assuming a utility is allowed to amortize a deferred amount in a twelve-month period, that utility may not have access to a 1-year Treasury Rate. A blended 1-3-5 year Treasury rate recognizes this fact and the fact that a Commission order authorizing amortization does not necessarily remove *all* risk of recovery. Further during periods in which the 1-year or

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[1] Order No. 06-507.

[2] The average of the rates of return for years 1997 to 2006, under staff's recommendation, would have been 4.33%. *See* Attachment 1.

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CP rate has been high, the longer term 3-year and 5-year rates have been low. A prudent utility may choose to borrow longer-term in the instances when 1-year rates are high. Staff's blended 1-3-5 year Treasury Rate would be consistent with this practice.

To the extent the blended rate would not make a utility "whole" when a deferred amount is scheduled to be amortized over a period that exceeds three years, however, the utility could ask the Commission to determine a different interest rate.

Issue No.2: How should the post-amortization rate of return be established?

Staff will determine the interest rate applicable to deferred accounts authorized for amortization at the beginning of each calendar year by averaging the 1-3-5 year Treasury Rates published by the Federal Reserve the last two Fridays of the December of the preceding year.[3] Staff will determine this average no later than January 10 of each year and will send a letter to each utility notifying them of the interest rate to be applied to any deferred amounts amortized during that calendar year.

With the exception discussed below, the newly-determined interest rate will apply to all deferred amounts amortized during that calendar year. Specifically, the newly determined interest rate will apply to amounts for which amortization began prior to January 1, and to any deferred amounts a utility begins to amortize in the calendar year. The exception noted above is for those deferred accounts with amortization periods that exceed three years for which the utility has asked the Commission to allow a different rate of return. The rate of return for those amounts will change on January 1 of each year only if specifically ordered by the Commission.[4]

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[3] The rates are published at http://www.federalreserve.gov/Releases/H15/data.htm. Assuming the Federal Reserve does not publish the rate on the second-to-the-last Friday in December because that Friday falls on a holiday, staff will rely on the preceding Friday's data, instead.

[4] This exception does not apply to existing deferrals that have rates of return specifically ordered by the Commission.

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Issue No. 3: Are there exceptions that should apply to Idaho Power Company ("Idaho Power").

Not specifically. However, to the extent that Idaho Power has deferrals for which the amortization period exceeds three years, Idaho Power can ask the Commission to apply a different interest rate to those amounts.

Idaho Power is currently amortizing deferred excess net variable power costs incurred during the western power crisis in 2001. It will continue amortizing those amounts through 2010. When Idaho Power is finished amortizing those costs, it will likely begin amortizing excess net variable power costs incurred during 2006, for which it is currently seeking authority to defer.

If Idaho Power believes the blended rate recommended by staff does not make Idaho Power whole given the level of risk associated with duration of the amortization, Idaho Power would have opportunity to request that the Commission impose a different interest rate.

Issue No. 4: How should the rate of return be set for accounts that are currently accruing prospective deferrals?

Staff notes that this issue is taken directly from the order, and that staff is not sure that it necessarily understands what the Commission is asking.[5] However, staff will interpret this question as concerning deferred amounts for which the utility has received an order to amortize, in part. For example, after the western power crisis, the Commission authorized PacifiCorp to defer certain excess net variable power costs and at the same time, commenced an investigation into whether the costs were prudently incurred. Prior to the time the Commission determined the prudence of the costs, the Commission authorized PacifiCorp to amortize a portion of the costs. As interpreted by staff, the question presented above is whether in similar circumstances in a future case, the Commission should require the utility to apply a different interest rate to the

[5] Order No. 06-507 ("We also direct Staff and parties to address how a new rate of return on amortized deferred accounts should be applied to deferred accounts that are currently accruing prospective deferrals[.]").

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portion of the deferred costs that are approved for amortization. The answer to this question is "yes." The new rate should apply to the portion of the costs approved for amortization for the reasons discussed in response to Issue No. 1.

Issue No. 5. How should the rate of return be set for accounts under the provisions of the 1980 Act?

The same as for all other deferrals.

Issue No. 6: Should there be a materiality threshold?

No. Staff believes that if the amounts are sufficient to warrant deferred accounting treatment, they are sufficient for purposes of applying the rate of return determined in this proceeding. However, staff invites parties to provide examples of amounts approved for amortization that the parties believe should be considered immaterial.

Issue No. 7: Should the newly established post-amortization rates of return apply to existing deferrals or should they be applied on a prospective basis.

The interest rate recommended by staff should apply to prospective deferrals and existing deferrals, including existing deferrals currently being amortized, for which amortization has already been approved, or for which the utility has not yet sought authority to amortize.

DATED this 12th day of September 2007.

Respectfully submitted,

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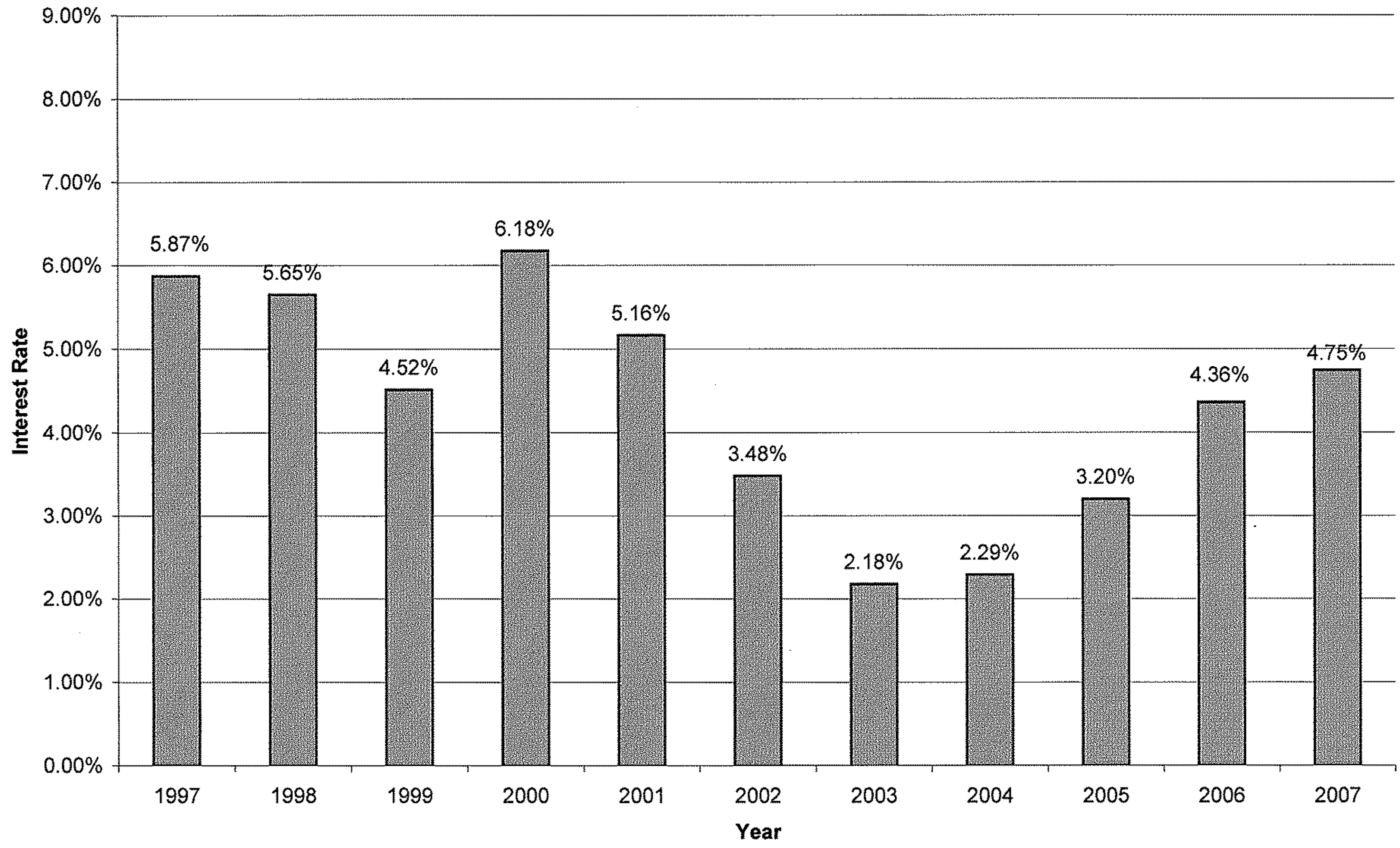
Interest Rate Applied to Amortizing Deferrals by Year



CERTIFICATE OF SERVICE

I certify that on September 12, 2007, I served the foregoing upon the parties in this proceeding by electronic mail and by sending a true, exact and full copy by regular mail, postage prepaid, or by hand-delivery/shuttle, to the parties accepting paper service.

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