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**BEFORE THE PUBLIC UTILITY COMMISSION**

**OF OREGON**

UF 4211

In the Matter of	)	
	)	
IDAHO POWER COMPANY	)	ORDER
	)	
Application for authorizing the Issuance and	)	
Sale of up to \$300,000,000 of Securities.	)	
	)	

**DISPOSITION: APPLICATION APPROVED WITH CONDITIONS  
AND REPORTING REQUIREMENTS**

On October 8, 2004, Idaho Power Company (Idaho) filed an application with the Public Utility Commission of Oregon (Commission), pursuant to ORS 757.415 and OAR 860-27-025 and 860-27-030, for the authority to issue and sell up to \$300 million, in aggregate, of two types of securities:

- 1) First Mortgage Bonds, which may be designated as secured Medium-Term Notes (Bonds or MTNs)
- 2) Unsecured Debt Securities (Unsecured Debt).

Idaho further requests authority to issue the Unsecured Debt without additional pre-issuance approval from the Commission so long as (1) the pricing of the Unsecured Debt falls within the commission and spread ranges set forth in its application for the Bonds issued as medium-term notes, and (2) Idaho maintains at least a BBB- or higher senior secured debt rating, as indicated by Standard & Poor's Rating Services, and a Baa3 or higher rating, as indicated by Moody's Investors' Service, Inc. The Commission previously granted authorization to Idaho for arrangements of this type in Order No. 03-196.

Idaho represents that the proceeds will only be used for purposes allowed by law. Such purposes include the acquisition of utility property, the construction, extension or improvement of utility facilities, the improvement or maintenance of service, the discharge or lawful refunding of obligations that were incurred for utility purposes (such as higher cost debt or preferred stock) or the reimbursement of Idaho's treasury for funds used for the foregoing

purposes, as permitted under ORS 757.415(1). The basis for the current request is detailed in Staff's recommendation memo, attached as Appendix A.

Based on a review of the application and the Commission's records, the Commission finds that this application satisfies applicable statutes and administrative rules. At its public meeting on November 9, 2004, the Commission adopted Staff's recommendation and approved Idaho's current request.

### **ORDER**

IT IS ORDERED that the application of Idaho Power Company to issue and sell up to \$300 million of its First Mortgage Bonds and Debt is approved with the following conditions and reporting requirements:

1. Idaho Power Company shall file the usual Report of Securities Issued and Disposition of Net Proceeds statements as soon as possible after any issuance. Upon each issuance of the medium-term notes pursuant to the Prospectus Supplement, the Company shall file a Pricing Supplement with the Commission providing a specific description of the terms and conditions of each issuance of the medium-term notes.
2. Idaho Power Company shall demonstrate that the rate(s) it achieves on new securities is consistent with competitive market rates. The demonstrations shall be filed as soon as possible after each issuance and sale, and shall include a demonstration that fees for partial issuances are reasonable.
3. Idaho Power Company shall demonstrate that any early refunding of existing securities and that any call provision or required sinking fund placed on new issuances is cost-effective.
4. Idaho Power Company shall demonstrate that the use of any hedging practices is cost effective, on or before the date the Company seeks recovery of any such costs.
5. The authorization shall remain in effect as long as Idaho Power Company maintains debt ratings of at least BBB-/Baa3 (i.e., "investment-grade") from Standard & Poor's and Moody's Investors' Service, Inc., respectively.
6. For ratemaking purposes, the Commission reserves judgment on the reasonableness of Idaho Power Company's capital costs, capital structure and the commissions and expenses incurred for security

- 7. issuances. In its next rate proceeding, Idaho Power Company shall be required to show that its capital costs, including imbedded expenses, and structure, are just and reasonable.
- 8. The interest rates and commissions shall be no greater than the parameters specified in Idaho Power Company’s application and detailed in Attachment A (Table 2).
- 9. If any agents or underwriters are involved in the sale of the Bonds, the names of such, the initial price to the public or to agents (if sold to any agent(s) as principal(s)) , any applicable commissions, premium or discounts and the net proceeds to Idaho Power Company shall be filed with the Commission as soon as possible after any issuance.

Made, entered and effective \_\_\_\_\_.

BY THE COMMISSION:

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**Becky L. Beier**  
Commission Secretary

A party may request rehearing or reconsideration of this order pursuant to ORS 756.561. A party may appeal this order to a court pursuant to ORS 756.580.

**PUBLIC UTILITY COMMISSION OF OREGON  
STAFF REPORT  
PUBLIC MEETING DATE: November 9, 2004**

REGULAR \_\_\_\_\_ CONSENT  X  EFFECTIVE DATE \_\_\_\_\_ N/A \_\_\_\_\_

**DATE:** October 29, 2004

**TO:** Lee Sparling through Marc Hellman and Bryan Conway

**FROM:** Ming Peng

**SUBJECT:** IDAHO POWER COMPANY: (Docket No. UF 4211) Application for Authorizing the Issuance and Sale of up to \$300,000,000 Securities.

**STAFF RECOMMENDATION:**

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

- 1) The Company shall file the usual Report of Securities Issued and Disposition of Net Proceeds statements as soon as possible after any issuance. Upon each issuance of the medium-term notes pursuant to the Prospectus Supplement, the Company shall file a Pricing Supplement with the Commission providing a specific description of the terms and conditions of each issuance of the medium-term notes.
- 2) The Company shall demonstrate that the rate(s) it achieves on new securities is consistent with competitive market rates. The demonstrations shall be filed as soon as possible after each issuance and sale, and shall include a demonstration that fees for partial issuances are reasonable.
- 3) The Company shall demonstrate that any early refunding of existing securities and that any call provision or required sinking fund placed on new issuances is cost-effective, on or before the date the company seeks recovery of any such costs.
- 4) The Company shall demonstrate that the use of any hedging practices is cost effective, on or before the date the company seeks recovery of any such costs.

- 5) The authorization shall remain in effect as long as the Company maintains senior secured debt ratings of at least BBB-/Baa3 (i.e., "investment-grade") from Standard & Poor's and Moody's Investors' Service, Inc., respectively.
- 6) For ratemaking purposes, the Commission reserves judgment on the reasonableness of the Company's capital costs, capital structure and the commissions and expenses incurred for security issuances. In its next rate proceeding, the Company shall be required to show that its capital costs, including imbedded expenses, and structure are just and reasonable.
- 7) The interest rates and commissions shall be no greater than the parameters specified in the Company's application and detailed in Attachment A (Table 2.)
- 8) If any agents or underwriters are involved in the sale of the Bonds, the names of such, the initial price to the public or to agents (if sold to any agent(s) as principal(s)), any applicable commissions, premium or discounts and the net proceeds to the Company shall be filed with the Commission as soon as possible after any issuance.

#### **DISCUSSION:**

On October 8, 2004, Idaho filed an application with the Commission, pursuant to Oregon Revised Statute (ORS) 757.415, and Oregon Administrative Rules (OAR) 860-27-025 and 860-27-030, for the authority to issue and sell up to \$300 million, in aggregate, of two types of securities:

- 1) First Mortgage Bonds, which may be designated as secured Medium-Term Notes (Bonds or MTNs)
- 2) Unsecured Debt Securities (Unsecured Debt).

The Company further requests authority to issue the Debt Securities without additional pre-issuance approval from the Commission so long as (1) the pricing of the Debt Securities falls within the commission and spread ranges set forth above for the Bonds issued as medium-term notes, and (2) Idaho Power maintains at least a BBB- or higher senior secured debt rating, as indicated by S&P, and a Baa3 or higher rating, as indicated by Moody's. The Commission previously granted authorization to the Company for arrangements of this type in Order No. 03-196 with the Condition No. 5.

#### **Bonds**

The Company's senior debt is currently rated A2 by Moody's Investors Service, A by Standard & Poor's Ratings Services, and A by Fitch, Inc. The Bonds may be designated as secured MTNs with maturities from 9 months to 30 years. Upon each issuance of the MTNs pursuant to the Prospectus Supplement, the Company will file a Pricing Supplement with the Commission providing the terms and conditions of each issuance of the MTNs.

The Company states that in order to better manage its interest rate exposure, it may enter into interest rate hedging arrangements with respect to the Debt Securities, including treasury interest rate locks, treasury interest rate caps and/or treasury interest rate collars<sup>1</sup>. The Bonds will be secured equally with the other First Mortgage Bonds of the Company.

The Bonds may be sold by public sale or private placement, directly by the Company or through agents, underwriters or dealers. The interest rates, underwriting commissions and other expenses will be limited to those detailed in Attachment A.

### **Unsecured Debt**

Idaho proposes to issue and sell, from time to time, one or more series of Debt Securities. The unsecured Debt Securities will be issued under a new or existing Indenture of the Company. The Company's outstanding unsecured senior debt is currently rated A3 by Moody's Investors Service, BBB+ by Standard & Poor's Ratings Services, and A- by Fitch, Inc. If the Debt Securities are sold privately, the Debt Securities will probably not be rated.

### **Use of Proceeds**

The Company represents that the net proceeds to be received by Idaho Power from the sale of the Securities will be used for the acquisition of utility property, the construction, extension or improvement of utility facilities, the improvement or maintenance of service, the discharge or lawful refunding of obligations which were incurred for utility purposes or the reimbursement of Idaho Power's treasury for funds used for the

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<sup>1</sup> **Interest rate caps** are purchased in advance of the issue date to provide the issuer with protection from interest rates exceeding a predetermined level. The purchaser of an **interest rate floor** seeks to establish a minimum rate its portfolio of securities would earn during a declining interest rate period. **Interest rate collar** is a combination of an interest rate cap and interest rate floor. The buyer of the collar purchases the cap option to limit the maximum interest rate he will pay, and sells the floor option to obtain a premium to pay the cap.

foregoing purposes, all as permitted under ORS 757.415(1). The Company states that if the funds to be reimbursed were used for the discharge or refunding of obligations, those obligations or their precedents were originally incurred in furtherance of the regulated utility purposes above.

### **Expenses**

The maximum commission to be paid by the Company to an agent(s) for issuance of the Bonds as MTNs in a given maturity range is described in Attachment A, Table 1. The cost of issuance of MTNs to the Company will fall within the spread over the respective U.S. Treasury bond or note as described in Attachment A, Table 2, where the cost to the Company is calculated as the cost to maturity reflecting the coupon on the medium-term note and the appropriate commission.

The Company estimates that its expenses in connection with the proposed issuance of \$300,000,000 of Securities, exclusive of underwriting spread or commission, will be as follows:

Securities and Exchange Commission Fees	\$75,000
Regulatory Agency Fees	5,000
Company's and Underwriter's Counsel Fees	1,000,000
Accounting Fees	15,000
Printing and Engraving Fees	40,000
Rating Agency Fees	80,000
Miscellaneous Costs	<u>25,000</u>
TOTAL	\$1,240,000

The Company will be expected to show that expenses on any partial issuance are cost-effective. The total fees appear reasonable based on past Commission approvals.

Based on Staff's review, approval of Idaho's application with the proposed conditions will provide reasonable access to the capital markets and is therefore in the public interest.

### **PROPOSED COMMISSION MOTION:**

Idaho's application for the authority to issue up to \$300 million Securities is approved with Staff's Conditions.

**ATTACHMENT A**

**Table 1. Commissions to MTN Agents**

<u>Range of Maturities</u>	<u>Commission (Percentage of Aggregate Principal Amount of MTNs Sold)</u>
From 9 months to less than 1 year	.125%
From 1 year to less than 18 months	.150%
From 18 months to less than 2 years	.200%
From 2 years to less than 3 years	.250%
From 3 years to less than 4 years	.350%
From 4 years to less than 5 years	.450%
From 5 years to less than 6 years	.500%
From 6 years to less than 7 years	.550%
From 7 years to less than 10 years	.600%
From 10 years to less than 15 years	.625%
From 15 years to less than 20 years	.675%
20 years and more	.750%



**ATTACHMENT A**

**Table 2. Idaho Summary for FMB/MTN All-in Fixed-Rate Spreads over US Treasury**

<u>Maturity</u>		<u>Maximum Spread Over Benchmark Treasury Yield<sup>(2)</sup></u>
<u>Equal to or Greater Than</u>	<u>Less Than</u>	
9 months	2 years	+90 basis points <sup>(3)</sup>
2 years	3 years	+100 basis points
3 years	4 years	+115 basis points
4 years	6 years	+120 basis points
6 years	9 years	+125 basis points
9 years	10 years	+130 basis points
10 years	11 years	+135 basis points
11 years	15 years	+138 basis points
15 years	20 years	+140 basis points
20 years	30 years	+155 basis points

<sup>2</sup> The Benchmark Treasury Yield with respect to any medium-term note maturity range means the yield to maturity of that issue of direct obligations of the United States which, out of all actively traded issues of such obligations with a remaining term to maturity within such note maturity rate, is generally considered by dealers in such obligations to be the standard for such obligations, whether federal, state or corporate, with approximately the same remaining terms to maturity. With respect to the issuance of any medium-term note, the Benchmark Treasury Yield shall be determined as of the time the commitment to purchase such note is received by the Company and the agents.

<sup>3</sup> Basis point is defined as one-one-hundredth of a percentage point; i.e., 100 basis points equals 1 percent.