

**BEFORE THE PUBLIC UTILITY COMMISSION  
OF OREGON**

UI 244

In the Matter of	)	
	)	
IDAHO POWER COMPANY	)	ORDER
	)	
Application for authority to provide short-term	)	
loans to Idaho Energy Resources Co.	)	

**DISPOSITION: APPLICATION APPROVED WITH CONDITIONS**

On October 21, 2005, Idaho Power Company (Idaho Power) filed an application with the Public Utility Commission of Oregon (Commission) pursuant to ORS 757.495 and OAR 860-027-0041, requesting an order approving its application to provide short-term loans to Idaho Energy Resources Co., an affiliated interest, and approve a waiver of OAR 860-027-0048, Cost Allocations by an Energy Utility. A description of the filing and its procedural history is contained in the Staff Report, attached as Appendix A, and incorporated by reference.

Based on a review of the application and the Commission's records, the Commission finds that the application satisfies applicable statutes and administrative rules. At its public meeting on January 10, 2006, the Commission adopted Staff's recommendation.

**OPINION**

**Jurisdiction**

ORS 757.005 defines a "public utility," and Idaho Power is a public utility subject to the Commission's jurisdiction.

**Affiliation**

An affiliated interest relationship exists under ORS 757.015.

**Applicable Law**

ORS 757.440 requires a public utility to seek approval before the utility may guarantee another's indebtedness.

ORS 757.495 requires a public utility to seek approval of contracts with affiliated interests within 90 days after execution of the contract.

ORS 757.495(3) requires the Commission to approve the contract if the Commission finds that the contract is fair and reasonable and not contrary to the public interest. However, the Commission need not determine the reasonableness of all the financial aspects of the contract for ratemaking purposes. The Commission may reserve that issue for a subsequent proceeding.

ORS 757.495(5) provides that no public utility shall issue notes or loan its funds or give credit on its books to any affiliated interest without the approval of the Commission.

**CONCLUSIONS**

1. Idaho Power Company is a public utility subject to the jurisdiction of the Commission.
2. An affiliated interest relationship exists.
3. The agreement is fair, reasonable, and not contrary to the public interest.
4. The application should be approved, with certain conditions.

**ORDER**

IT IS ORDERED that Idaho Power Company's application to provide short-term loans to Idaho Energy Resources Co. is approved, and OAR 860-027-0048(4)(d), Cost Allocations by an Energy Utility, is waived, subject to the six recommended conditions in the Staff Report, attached as Appendix A.

Made, entered, and effective JAN 17 2006.

BY THE COMMISSION:



Becky L. Beier  
**Becky L. Beier**  
Commission Secretary

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.

PUBLIC UTILITY COMMISSION OF OREGON  
STAFF REPORT  
PUBLIC MEETING DATE: January 10, 2006

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

DATE: December 28, 2005

TO: Public Utility Commission

FROM: Michael Dougherty *MD*

THROUGH: *in* Lee Sparling and Marc Hellman *MH*

SUBJECT: IDAHO POWER COMPANY; (Docket No. UI 244) Application for authority to provide short-term loans to Idaho Energy Resources Co.

**STAFF RECOMMENDATION:**

The Commission should approve Idaho Power Company's (IPC or Company) application to provide short-term loans to Idaho Energy Resources Co. (IERCo), an affiliated interest, and approve a waiver of Oregon Administrative Rule (OAR) 860-027-0048, Cost Allocations by an Energy Utility, subject to the following conditions:

1. Idaho Power shall provide the Commission access to all books of account, as well as documents, data, and records of Idaho Power and IERCo's affiliated interests that pertain to this transaction.
2. The Commission reserves the right to review for reasonableness all financial aspects of this transaction in any rate proceeding or alternative form of regulation.
3. Idaho Power shall notify the Commission in advance of any substantive changes to the agreements. Any such change shall be submitted in an application for a supplemental order (or other appropriate format) in this docket.
4. Idaho Power shall set the interest rate on funds loaned to and borrowed from IERCO, at Idaho Power's short term cost of borrowing. If Idaho Power is in an investment mode (no short-term borrowings outstanding), then Idaho Power should set the interest rate using the daily average interest rate earned on Idaho Power's short-term investments.

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5. IERCo agrees that Idaho Power's outstanding balance should be reduced by \$117,651, to reflect interest charged at Idaho Power's short-term cost of borrowing.
6. Idaho Power shall submit a recalculated balance with all appropriate journal record entries to Staff that demonstrate the changes required by Condition No. 5 within 60 days of approval of this docket.

**DISCUSSION:**

IPC initially submitted the application as an informational filing pursuant to OAR 860-027-0041 based on comments written by Staff in the Staff Audit Report of Idaho Power Company, Audit No. 2004-01, dated December 8, 2004. However, after discussion with Staff, the filing was docketed as an affiliated interest application pursuant to ORS 757.495 and OAR 860-027-0040. This application requires Commission approval as ORS 757.495 (5) states:

"No public utility shall issue notes or loan its funds or give credit on its books or otherwise to any person or corporation having an affiliated interest, either directly or indirectly, without the approval of the commission."

IERCo is a wholly-owned subsidiary of IPC, therefore IPC and IERCo are affiliates as defined in ORS 757.015.

Additionally, because interest on the loan principal is set at IPC's costs (short-term borrowing costs) and not at the market rate, IPC also requires a waiver of OAR 860-027-0048.

Background

According to IPC, IERCo was formed by Idaho Power to participate in the mining operations that supply coal to the Jim Bridger coal-fired generation plant near Rock Springs, Wyoming. IERCo is a one-third partner in Bridger Coal Company (BCC), a joint venture mining company which mines coal at the Bridger coal mine for delivery to the Jim Bridger plant. BCC is one-third owned by IERCo and two-thirds owned by Pacific Minerals, Inc, a wholly-owned subsidiary of PacifiCorp. The Jim Bridger plant is one-third owned by IPC and two-thirds owned by PacifiCorp. Although IERCo is a separate legal entity, it has no separate employees and it is included as part of IPC for ratemaking purposes.

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IPC transfers funds to IERCo on a periodic basis (typically weekly) to fund IERCo's one-third share of BCC's cost of operations. IERCo then transfers funds back to IPC (typically monthly), plus interest, from coal sale proceeds IERCo receives from BCC. IPC typically transfers between \$1 million and \$4 million per month for IERCo's ongoing capital and operating contributions to BCC.

In the past three years, IERCo has transferred more funds back to IPC than what was loaned by IPC to IERCo. According to IPC, this situation occurs when IERCo's dividends to IPC exceed IPC's loan advances to IERCo under the note. As a result, during calendar year 2005, the monthly highest balance IPC owed IERCo on the principal was approximately \$21 million. The lowest monthly balance was approximately \$14 million.

According to IPC, the note balance is expected to reverse in the near future, as IERCo's dividends to IPC are reduced, and IERCo funding is instead directed to the underground mining operations of BCC.

#### Issues

Staff investigated the following issues:

1. Terms and Conditions of the Inter-Company Note
2. Public Interest Compliance
3. Transfer Pricing
4. Records Availability, Audit Provisions and Reporting Requirements

#### Terms and Conditions of the Inter-Company Note

Staff did not observe any unusual terms and conditions of the Inter-Company Note. Borrowings under the Note are set at the actual daily cost of short-term borrowings of IPC, as calculated by IPC's Funds Management Department. If IPC is in an investment mode (no short-term borrowings outstanding), then the interest rate is set at the daily average of IPC's short-term investments.

#### Public Interest Compliance

In the Staff Audit Report of the Idaho Power Company, Audit No. 2004-01, Staff originally had concerns about the interest rate being charged to IERCo, because the rate was set at IPC's cost (short-term borrowing rates) and not the higher of cost or market as required by OAR 860-027-0048.

As a result of this concern, Staff requested the Company to provide the monthly interest rates charged to IERCo from January 1, 2003 through September 30, 2005. It was

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through this request, and additional conversations with IPC, that Staff realized IPC owed IERCo an amount that was as high as approximately \$21 million in January 2005.

Additionally during review of the docket, IPC discovered an inconsistency concerning the calculation of interest on the IERCo/IPC promissory note that has occurred since March 2004. The IPC short-term borrowing interest rate was applied on the note at all times, but the monthly loan balance on the note was not being calculated correctly. The end of month balances used to determine interest revenue were based on operating transactions only, not actual ending general ledger balances on the note.

Because of the inconsistency in the way interest on the IERCo/IPC note has been calculated, IPC recalculated the balance of the note. As a result, Staff recommends and both IERCo and IPC agree that IPC will reduce the balance owed by IPC to IERCo at the amount of \$117,651.

Staff examined IPC's accounting concerning the loans and interest and agrees that the appropriate FERC accounts are being used.

#### Transfer Pricing

Pursuant to OAR 860-027-0048, the interest rate charged to IPC by IERCo is required to be the lower of cost or market. However, interest on the loan principal is set at IPC's costs (short-term borrowing costs) and not at the market rate.

IERCo's interest income is a component of IERCo's net income and is included in IPC's regulated accounts. This accounting results in a potential benefit to customers since it lowers IPC's revenue requirement. Since IERCo's net income is included in IPC's net operating income, Staff believes the Commission should allow a cost-based approach to the loans and allow IPC to set interest rates at IPC's short-term borrowing costs and not the lower of cost or market.

The Commission, in Order No. 91-513 (UI 105)<sup>1</sup>, has previously allowed a cost-based approach when affiliate activities were limited to a specific contract function. Additionally, IPC's loan activities with IERCo are similar to PacifiCorp's loan activities with Pacific Minerals, which was previously approved by the Commission in Order No. 83-115 (UI 1).<sup>2</sup>

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<sup>1</sup> In the Matter of the Application of PACIFICORP, dba PACIFIC POWER & LIGHT COMPANY, for an order approving a contract for mining services with Energy West Mining Company, an affiliated interest.

<sup>2</sup> An Umbrella Loan Agreement between PacifiCorp and Pacific Minerals, Inc. was approved by the Commission in Order No. 83-115 (UI 1).

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Records Availability, Audit Provisions and Reporting Requirements

Order Conditions Number 1 and 6, listed above in the Staff recommendation, afford the necessary Commission examination of IPC's records concerning this application.

Based on the review of this application, Staff concludes the following:

1. The application involves an affiliated interest transaction that is fair and reasonable and not contrary to the public interest, with the inclusion of the proposed ordering conditions.
2. Necessary records are available.

**PROPOSED COMMISSION MOTION:**

Idaho Power Company's application to provide short-term loans to Idaho Energy Resources Co., an affiliated interest, and a waiver of Oregon Administrative Rule 860-027-0048(4)(d), Cost Allocations by an Energy Utility, be approved subject to the six recommended conditions.

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