ORDER NO. 08-576

ENTERED 12/04/08

BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UF 4244(1)

In the Matter of	)	
	)	
IDAHO POWER COMPANY	)	ORDER
	)	
Request to Amend Order No. 08-105.	)	

DISPOSITION: REQUEST APPROVED WITH CONDITIONS AND REPORTING REQUIREMENTS

On January 28, 2008, the Public Utility Commission of Oregon entered Order No. 08-105, approving Idaho Power Company's (Idaho Power) application for authority to issue up to $350,000,000 of first mortgage bonds and debt securities. Since that time, credit spreads over yields on benchmark Treasury securities for prospective Idaho Power bonds have increased such that current spread estimates may now exceed many of the maximum authorized spreads as set forth in Table 2 of Appendix A of Order No. 08-105.

On November 10, 2008, Idaho Power filed a request to amend Order No. 08-105. 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 request satisfies applicable statutes and administrative rules. At its public meeting on November 25, 2008, the Commission adopted Staff's recommendation and approved Idaho Power's current request.

ORDER

IT IS ORDERED that Idaho Power Company's request to amend Order No. 08-105, subject to the conditions and reporting requirements detailed in Appendix A, is approved.

Made, entered, and effective DEC 04 2008.

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.

ITEM NO. CA7

PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: November 25, 2008

REGULAR ____ **CONSENT** X **EFFECTIVE DATE** N/A

DATE: November 18, 2008

TO: Public Utility Commission

FROM: Steve Storm

THROUGH: Lee Sparling and Marc Hellman

SUBJECT: IDAHO POWER COMPANY: (Docket No. 4244(1)) Requests amendments to Order No. 08-105 in UF 4244.

STAFF RECOMMENDATION:

The Commission should approve Idaho Power Company's (Idaho Power or Company) request for an amendment to Order No. 08-105, in UF 4244, subject to the following conditions and reporting requirements:

1) Securities issued under this authority shall not exceed a total of $350,000,000 or, if the securities are issued at an original issue discount, such greater amount as shall result in an aggregate offering price of not more than $350,000,000 (or its equivalent amount inclusive of any securities issued under this authority in foreign currencies). The total of securities issued under this authority is to include securities issued under authorization granted in Order No. 08-105.

2) The Company shall demonstrate the cost-effectiveness of any early refunding of existing securities. The Company shall demonstrate that any put or call provision and any required sinking fund placed on new issuances is cost-effective.

3) The Commission reserves judgment on the reasonableness for ratemaking purposes of the Company's capital costs, capital structure and the commissions and expenses incurred for security issuances. The Company has the burden of proof to demonstrate that its financing activities; capital costs, including embedded expenses; and capital structure are just and reasonable.

4) Subsequent to a Commission Order pursuant to this application, Idaho Power may issue the debt securities as set forth in the Company's December 13, 2007, filing,

without further Commission approval if all-in rate[1] spreads do not exceed limits set forth in column C of Table 1 in Attachment A. Alternatively, should all-in rate spreads exceed the relevant maximum all-in rate spread over Treasuries limitation as set forth in column C of Table 1 in Attachment A, the Company may issue debt securities without further Commission approval if the all-in rate does not exceed the relevant all-in rate limitation as set forth in column C of Table 2 in Attachment A. Should issuance be under this alternative, the Company shall provide a post-issuance report to the Commission within ten business days, with the report describing the prevailing market conditions for the Company's debt, explaining the reasons for the high level of spreads over Treasuries relative to the all-in rate, and detailing any steps taken by the Company to minimize the overall cost of the issuance.

5) The use of estimates for expenses, other than for underwriting spread or commissions and for discounts from par to adjust pricing, for the purpose of calculating pre-issuance all-in rates and all-in spreads, is allowed if actual values are unavailable.

6) The relevant share of expenses to be included for each specific issuance of securities in all-in calculations is the pro rata portion of the estimated total issuance expenses based upon the principal amount of securities in the specific issuance as compared with the $350,000,000 total issuance authorized.

7) The authorization is to remain in effect as long as the Company maintains senior secured debt ratings no lower than BBB-/Baa3 (i.e., "investment-grade") from Standard & Poor's and Moody's Investors' Service, Inc., respectively.

8) All conditions and reporting requirements associated with Order No. 08-105 continue to apply, except where expressly modified within the amended order issued pursuant to this filing.

DISCUSSION:

The Commission approved Idaho Power's application for authority to issue up to $350,000,000 of first mortgage bonds (FMBs) and debt securities in UF 4244, Order No. 08-105, entered on January 28, 2008. Since that time, credit spreads over yields on

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[1] The terms "all-in rate" and "all-in cost" as used here include all associated issuance expenses, the coupon rate, and any discount or premium from par value at issuance. The terms refer to the percentage Internal Rate of Return (IRR) when all costs, such as floatation and insurance costs, as well as the actual cash flows of the security, are included. See page 747 of "Futures, Options, and Swaps," Fifth Edition; by Robert W. Kolb and James A. Overdahl; Blackwell Publishing, Ltd; 2007.

benchmark Treasury securities for prospective Idaho Power bonds have increased such that current spread estimates may now exceed many of the maximum authorized spreads as set forth in Table 2 of Appendix A of Order No. 08-105. A primary result of Staff's recommended amendment to Order No. 08-105 is to increase the maximum interest rates at which Idaho Power is authorized to issue long-term debt securities.

In this filing, Idaho Power requests Order No. 08-105 be amended, such that any debt securities issued under the amended authorization fall within the relevant maximum all-in spread over the benchmark Treasury yield, as represented in Table 2 of the Company's November 10, 2008, filing. Should the all-in spread over the relevant Treasury yield exceed the maximum spreads in the Company's Table 2, the all-in rate will not exceed the relevant maximum all-in rate as in Table 3 of the Company's November 10, 2008, filing. The values in Tables 1 and 2 in Attachment A of Staff's Report reflect the same constraints as the values in the Company's Tables 2 and 3.

The Company's November 10, 2008, filing includes a definition of all-in rates; i.e., a rate calculated by including "the coupon rate, the appropriate commission, estimated other issuance expenses, and any additional discount below 100% of the principal amount(s) of the MTNs."[2,3] This definition differs from that used by Staff, in that other issuance expenses are qualified as being estimated.[4] The Company represents that "actual issuance expenses for a given MTN issuance are not known until months *after* the issuance."[5] Idaho Power additionally represents that "bond counsel will not provide the unqualified legal opinions required for issuance of the MTNs" if compliance with the requirements of all-in spread and all-in rate limitations cannot be definitively confirmed prior to issuance, which is the case if issuance expenses are not qualified as "estimated issuance expenses;" i.e., by explicitly recognizing that at least some of these issuance expenses are not known until some time following issuance and therefore estimates of such expenses must be used in the all-in rate calculation(s).

The Company points to language in Attachment A of Order 08-105 which could be interpreted as prohibiting the Company's "selling the MTNs to agents at a discount...for

[2] See page 2 of Idaho Power's November 10, 2008, filing.

[3] MTNs refers to medium-term notes, which are FMBs of the Company that may be continuously offered to investors over a period of time by an agent. MTNs may be offered either domestically or through global programs. Investors can typically select from a variety of maturity bands; e.g., 9 months to 1 year, more than 1 year to 18 months, more than 18 months to 2 years, etc., up to 30 years.

[4] Additionally, Staff prefers a broader definition of expenses and cash flows to be used in calculating all-in rates or all-in spreads. As an example, should an insurance product be purchased as a "wrapper" for an issuance, the cost of such insurance is to be included in calculations of all-in rates and all-in spreads.

[5] See page 2 of Idaho Power's November 10, 2008, filing.

valid business purposes, such as to round down the coupon interest rate on the MTNs to an even number for marketing purposes."[6]

Staff has discussed both of these issues with the Company. The first issue is resolved by inclusion of conditions five and six (above). The second issue is resolved by removal of the sentence contained in Order No. 08-105, as cited in the Company's November 10, 2008, application, from Attachment A of the current Staff Report. Rather than completing the resolution by redefining the terms all-in rate and all-in cost, Staff's definition of these terms, provided in a preceding footnote, is considered to be satisfactory in that the effect of the Company's "selling the MTNs to agents at a discount...for valid business purposes, such as to round down the coupon interest rate on the MTNs to an even number for marketing purposes" on an all-in rate is captured by the "actual cash flows of the security" portion of Staff's definition.

Pricing and Expenses

Staff wishes to clarify the order of consideration in determining whether an issuance falls within cost/pricing limitations. The first consideration is: "Will the debt securities be issued having an all-in rate within the maximum spread over the yield of the relevant benchmark Treasury security, as provided in column C of Table 1 in Attachment A?" Should this be the case, the limitation on pricing is considered to be met.

Should this not be the case, a second consideration is addressed: "Will the debt securities be issued having an all-in rate less than or equal to the relevant all-in rate as provided in column C of Table 2?" If the second consideration is met, then the limitation on pricing is considered to be met. In other words, the pricing limitation is considered met if, first, the applicable all-in rate spread limitation is met, or alternatively, if the spread limitation is not met while the all-in rate limitation is met.

Under the current credit environment, focusing on credit (interest rate) spreads alone may not be sufficient, since high spreads may be offset by relatively low Treasury yields, resulting in moderate to low interest rates on utility debt securities. Since the all-in-rate represents the inclusive borrowing costs to the Company and potentially to its customers, it is reasonable under current conditions to provide an alternative to the traditional spread table included in most utility financing dockets. The provided alternative is intended to afford the Company additional flexibility in issuing debt in the current financial environment, while continuing to provide protections to customers.

[6] See page 3 of Idaho Power's November 10, 2008 filing.

Based on Staff's review, Idaho Power's requested amendment to Order No. 08-105, as modified in Staff's Report, appears reasonable and meets the appropriate statutory requirements.

PROPOSED COMMISSION MOTION:

Commission Order No. 08-105 be amended by inclusion of Staff's Report of November 18, 2008; with the amended Order specifying maximum all-in rates should Idaho Power's security issuances under this authority exceed the relevant maximum all-in rate spreads over benchmark U.S. Treasury security yields for various maturities as specified in Table 1 of Attachment A of Staff's November 18, 2008, Report.

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Attachment A

Interest rates:

The maximum all-in rate spread over the applicable Treasury security for various maturities is listed below. Interest rates on the s will be determined at issuance.

Table 1

Maximum Spreads over Benchmark U.S. Treasury Yield[7]

for Debt Securities

Maturity: Greater Than or Equal To	And Less Than	Maximum Spread: All-in Rate Over Benchmark Treasury Yield
(A)	(B)	(C)
9 months	2 years	+ 350 basis points
2 years	3 years	+ 365 basis points
3 years	4 years	+ 380 basis points
4 years	6 years	+ 395 basis points
6 years	9 years	+ 410 basis points
9 years	10 years	+ 425 basis points
10 years	11 years	+ 450 basis points
11 years	15 years	+ 465 basis points
15 years	20 years	+ 480 basis points
20 years	35 years	+ 500 basis points

[7] The Benchmark U.S. Treasury Yield, with respect to any of the debt securities' 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 debt securities' maturity range, is generally considered by dealers in such obligations to be the standard for such obligations. With respect to the issuance of any of the debt securities', the Benchmark U.S. Treasury Yield shall be determined as of the time the commitment to purchase such debt securities' is received by the Company or its agents.

Should the all-in spreads over benchmark Treasuries exceed the maximum spreads in Table 1, the all-in rates will not exceed those in Table 2.

Table 2

Maximum All-in Rates for Debt Securities

Maturity: Greater Than or Equal To	And Less Than	Maximum All-in Rate
(A)	(B)	(C)
9 months	5 years	8.50%
5 years	10 years	9.00%
10 years	20 years	9.50%
20 years		10.00%