ORDER NO. 09-265

ENTERED 07/07/09

BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UM 1147

In the Matter of PUBLIC UTILITY COMMISSION OF OREGON Staff Request to open an investigation related to deferred accounting.	ORDER

DISPOSITION: STIPULATION ADOPTED

I. BACKGROUND

On May 22, 2008, the Public Utility Commission of Oregon (Commission) entered Order No. 08-263, adopting a new rate to be applied to deferred accounts during amortization.[1] The new rate is the average of the annual rates for one-, three- and five-year Treasury securities plus 100 basis points (Modified Blended Treasury Rate).[2] On the 60th calendar day after the entry date for Order No. 08-263, the Commission ordered utilities to apply the Modified Blended Treasury Rates to the balances of all deferred accounts in amortization as of May 22, 2008, and thereafter. The Commission indicated, however, that exceptions to the application of the new interest rate could be granted, and invited petitions for exception.

On July 21, 2008, Idaho Power Company (Idaho Power or Company) filed a petition for an exception to the application of the Modified Blended Treasury Rate to all of the Company's then existing deferred accounts in amortization. In Order No. 08-477, entered on September 23, 2008, the Commission determined that the Modified Blended Treasury Rate should not be applied to Idaho Power's then existing deferred accounts in amortization and granted an exception. The Commission concluded that Idaho Power's deferrals were amortized over too long a period to justify application of a short-term based interest rate. As Idaho Power and Commission Staff (Staff) did not yet agree regarding an alternative rate to be applied, the Commission directed Staff and the Company to continue working together for a specified period of time (that was subsequently extended by request of

[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.*

the parties) to develop an alternative rate. In the interim, the Commission ordered that the Company's authorized rate of return (AROR) be applied to all of Idaho Power's then existing deferred accounts in amortization.

After two settlement meetings, Staff and Idaho Power tentatively agreed to a methodology to calculate an alternative interest rate for Idaho Power's existing deferred accounts in amortization and to the calculation of the alternative rate for year 2009 using this methodology. On February 26, 2009, Staff circulated the proposed agreement among all parties in Docket UM 1147, in accordance with OAR 860-014-0085(3). No comments or objections to the proposed agreement were received. On April 22, 2009, a Stipulation and Joint Explanatory Brief were submitted on behalf of Idaho Power and Staff (the Stipulating Parties).

II. THE STIPULATION AND SUPPORT FOR THE STIPULATION

The Stipulation, attached to this order as Appendix A, provides for the calculation of an interest rate alternative to the Modified Blended Treasury rate. The Stipulating Parties agree that the alternative rate, called the Modified Blended Exception Rate, shall be calculated pursuant to the methodology set forth in Attachment A to Appendix A.

The Stipulating Parties further agree to apply the Modified Blended Exception Rate to the balance in any Idaho Power deferred account for which the Company has obtained an exception to the application of the Modified Blended Treasury Rate. The Stipulating Parties agree that the Modified Blended Exception Rate for year 2009 is calculated to be 3.78 percent. The Stipulation calls for this rate to be applied to the deferred accounts excepted in Order No. 08-477.

The Stipulating Parties further agree that Staff will update the Modified Blended Exception Rate by January 10 of each year. The updated Modified Blended Exception Rate for each year shall be applied to deferred accounts for which Idaho Power receives: 1) authorization in that year to begin amortization; and 2) authorization for exception to the general applicability of the Modified Blended Treasury Rate.

The Stipulating Parties assert that the Modified Blended Exception Rate complies with Order No. 08-477 by balancing the lower risk, in general, of rate recovery for deferred accounts in amortization with the longer-term nature of certain Idaho Power deferred accounts in amortization. The Stipulating Parties characterize the Modified Blended Exception Rate as a "compromise between the Company's AROR and the Modified Blended Treasury Rate" that is "calculated to fall between these two rates in most envisioned economic environments," and one that results in just and reasonable rates.[3]

[3] Joint Explanatory Brief, p. 4.

III. DISCUSSION

We have examined the Stipulation, the Joint Explanatory Brief, and the record in the case. We agree with the Stipulating Parties' conclusion that the Modified Blended Exception Rate, as applied to any Idaho Power deferred account in amortization for which we have granted or will grant an exception from application of the Modified Blended Treasury Rate, will result in just and reasonable rates. We concur with the Stipulating Parties' determination that Modified Blended Exception Rate appropriately balances the lower risk of rate recovery associated with deferred accounts in amortization and the longer-term amortization of the deferred accounts to which it will be applied.

We find the Stipulation's methodology for calculating the Modified Blended Exception Rate to be appropriate. We also agree that this calculation results in a Modified Blended Exception Rate for year 2009 of 3.78 percent. Adopting this rate, it shall be applied to Idaho Power's deferred accounts in amortization for which we granted an exception from application of the Modified Blended Treasury Rate in Order No. 08-477, as of the effective date of this order.

We agree that Staff will update the Modified Blended Exception Rate each year by January 10th of that year. The Modified Blended Exception Rate, as calculated for each year, shall be applied to any deferred account authorized in that year for amortization for which we also grant an exception from the Modified Blended Treasury Rate, on the effective date of the exception.

We adopt the Stipulation in its entirety.

ORDER

IT IS ORDERED that:

1. The Stipulation, dated April 22, 2009, executed by Idaho Power Company and Commission Staff and attached as Appendix A, is adopted.

2. A Modified Blended Exception Rate of 3.78 percent is adopted for 2009.

3. The Modified Blended Exception Rate for year 2009 will be applied, as of the effective date of this order, to Idaho Power's deferred accounts in amortization for which we granted an exception from application of the Modified Blended Treasury Rate in Order 08-477.

Made, entered, and effective JUL 0 7 2009.

Lee Beyer
Chairman

John Savage
Commissioner

COMMISSIONER BAUM WAS UNAVAILABLE FOR SIGNATURE

Ray Baum
Commissioner

PUBLIC UTILITY COMMISSION OF OREGON

BEFORE THE PUBLIC UTILITY COMMISSION OF OREGON

UM 1147

In the Matter of PUBLIC UTILITY COMMISSION OF OREGON Staff Request to Open an Investigation Related to Deferred Accounting.	**STIPULATION**

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

PARTIES

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

BACKGROUND

2. On May 22, 2008, the Commission issued Order No. 08-263 in which it adopted a new rate to be applied to deferred accounts during amortization—an average of the rates for one-, three-, and five-year Treasury securities plus 100 basis points ("Modified Blended Treasury Rate").[1] The utility's authorized rate of return remains the applicable interest rate for balances in deferred accounts not yet authorized for amortization.[2] The Commission ordered that as of 60 calendar days after May 22, 2008, utilities must apply the Modified Blended Treasury Rate to balances of all deferred accounts in amortization, as

[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.

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

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

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

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

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[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.
[4] *Id.* at 16.
[5] *Id.*
[6] *Id.*
[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).
[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).

with the nature of Idaho Power's existing amortized deferred accounts then in amortization.[10] The Commission also found that, while it would not adopt Staff's recommendation to apply the Modified Blended Treasury rate to the first three years of amortization of excess net variable power costs, neither would it adopt Idaho Power's proposal to apply the Company's AROR to existing deferred accounts in amortization.[11] The Commission directed Staff and Idaho Power to work together to establish an interest rate appropriate to Idaho Power's existing deferred accounts in amortization.[12]

6. As ordered by the Commission, the Parties met on two separate occasions by teleconference. Based on these meetings, the Parties came to a tentative proposed agreement on the appropriate interest rate to be applied to Idaho Power's existing deferred accounts in amortization as described in this Stipulation.

7. In accordance with OAR 860-014-0085(3), Staff circulated both the Parties' proposed interest rate to be applied to Idaho Power's existing deferred accounts in amortization and the method used in calculating the proposed rate among all parties in Docket No. UM 1147 on February 26, 2009. Staff requested 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.

AGREEMENT

8. The Parties agree that the interest rate the Commission should apply to balances in Idaho Power's existing deferred accounts in amortization is the Modified Blended Exception Rate. Attachment A to this Stipulation describes the method used to calculate the Modified Blended Exception Rate.

9. The Modified Blended Exception Rate for the year 2009 is 3.78 percent. This rate will be applied to the Company's existing deferred accounts currently in amortization.

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[10] *Id.*
[11] *Id.*
[12] *Id.*

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

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

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

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

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

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

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

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

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

18.

STAFF	IDAHO POWER
By: [signature]	By: ______________________
Date: April 22, 2009	Date: ______________________

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

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

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STAFF	IDAHO POWER
By: ______________	By: [signature]
Date: ______________	Date: April 22 2009

ATTACHMENT A

Method of calculating the Modified Blended Exception Rate

The Modified Blended Exception Rate is calculated based on the value of the Modified Blended Treasury Rate (see Order No. 08-263) and the average of the yield on Moody's seasoned Baa bond index on the first two Thursdays of December, as published by the Federal Reserve in Table H.15.[13] Moody's Baa index was chosen due to the composite rating for this index (Baa) being more representative currently of Oregon-regulated energy investor-owned utilities than the alternative Moody's Aaa index. Per Moody's, obligations rated Baa are subject to moderate credit risk. They are considered medium-grade and as such may possess certain speculative characteristics.

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

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

[13] *See* http://www.federalreserve.gov/Releases/H15/current/h15.pdf for an example of this report.
[14] *See* the St. Louis Federal Reserve Bank's description at http://research.stlouisfed.org/fred2/series/DBAA?cid=119

The calculation:

Modified Blended Exception Rate =

Modified Blended Treasury Rate +

7/27 X (Blended Moody's Baa Rate – Modified Blended Treasury Rate)

where:

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

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

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

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