ORDER NO. 19-120

ENTERED Apr 11 2019

BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UF 4311

In the Matter of

IDAHO POWER COMPANY,

Application for Authorization for the issuance and Sale of Up to $500,000,000 of First Mortgage Bonds and Debt Securities

ORDER

DISPOSITION: STAFF'S RECOMMENDATION ADOPTED

At its public meeting on April 9, 2019, the Public Utility Commission of Oregon adopted Staff's recommendation in this matter. The Staff Report with the recommendation is attached as Appendix A.

BY THE COMMISSION:

Nolan Moser
Chief Administrative Law Judge

A party may request rehearing or reconsideration of this order under 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 860-001-0720. A copy of the request must also be served on each party to the proceedings as provided in OAR 860-001-0180(2). A party may appeal this order by filing a petition for review with the Circuit Court for Marion County in compliance with ORS 183.484.

ITEM NO. CA6

PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: April 9, 2019

REGULAR ____ CONSENT X EFFECTIVE DATE Upon Commission Approval

DATE: March 28, 2019

TO: Public Utility Commission

FROM: Matt Muldoon and Sabrinna Soldavini

THROUGH: Jason Eisdorfer and John Crider

SUBJECT: IDAHO POWER COMPANY: (Docket No. UF 4311) Requests authority to issue and sell up to $500 million of first mortgage bonds and debt securities.

STAFF RECOMMENDATION:

Staff recommends the Commission approve Idaho Power Company's (Idaho Power, IPC, or Company) application to issue and sell up to $500 million of First Mortgage Bonds (FMB) and Debt Securities (hereinafter the "Application"), subject to the following nine conditions and reporting requirements. Herein "Debt Securities" includes unsecured debt and promissory notes.

1. Authorization Limit

   Total aggregate bonds and notes issued, sold, or exchanged under this authority shall not exceed $500 million and shall have maturities not exceeding 40 years.

   Note: If the bonds and notes are issued at an Original Issue Discount (OID) not to exceed one percent, such greater amount shall result in an aggregate offering price of not more than $500 million.

2. Withdrawal of Prior Authorization

   All prior Commission debt securities outstanding unused issuance authorizations, inclusive of the $280 million remaining issuance authorization under Commission Order No. 16-151 in Docket No. UF 4297 (but excluding the short-term borrowing authorization under Docket No. UF 4293) will expire 60 calendar days after the Commission's order is entered in this docket, UF 4311, approving the Company's debt securities issuance up to the limits shown in Condition 1.

During said 60-day period, the aggregate principal amount authorized for issuance between UF 4297 and UF 4311 shall be $500 million. Any interim issuance will draw on the authority under Order No. 16-151 in UF 4297 first until that authority is depleted or terminated.

3. Cost Requirements

Subsequent to an authorizing Commission order pursuant to this Application, the Company may issue FMB and debt securities without further Commission approval provided that proceeds are used for lawful utility purposes, and provided either:

A. All-in rate spread(s) over yield(s) on like maturity U.S. Treasury (UST) do not exceed the limits set forth in Attachment B. Interest rates on floating rate Unsecured Notes may be periodically reset based on a fixed spread over 1-, 2-, 3-, 6-, or 9-month London Interbank Offering Rates (LIBOR) as reported on Bloomberg, Reuters, or other customary LIBOR sources. In no case for Unsecured Notes will the fixed spread over pertinent LIBOR exceed 1.5 percent. In the event that LIBOR is not reported or is unavailable, the parties may use a rate from another recognized source or a rate agreed to by the parties intended to approximate LIBOR; or

B. The all-in fixed coupon rate does not exceed a **7.0** percent "hard cap." However, the agreements related to debt securities may contain customary or market terms and conditions required by lenders or holders, including without limitation, yield protection, capital adequacy requirements and tax indemnification, which will not be included in the hard cap.

Both "A" and "B" above incorporate the restriction that all costs of any hedging associated with any issuance under the authority requested must be accomplished within the all-in spreads or rate specified above.

The Company may also incur a new prevailing fee(s) (Unanticipated Fee Allowance), not to exceed an aggregate 10 basis points of affected principal. Such Unanticipated Fee Allowance is in addition to the hard caps described above. The Company should include materials in its next reporting to the Commission demonstrating that this cost was new and market pervasive at issuance.

4. Hedging and Currency Exchange

Authorization to enter into Interest Rate Hedging Arrangements is predicated upon the Company's completion of the Company's own affirmative comprehensive analysis or use of independent third-party analysis. Regardless of any prevailing hedging and accounting policies, and regardless of the presence of associated materials generated by investment banks or hedge counterparties, prior to executing any hedging or financial derivative agreement, other than a delayed issuance arrangement of up to one year under a private placement at *de minimis* incremental cost and at no incremental risk, the Company will perform its own comprehensive analysis[1] regarding hedging costs, benefits and risks, or will obtain expert advice from an entity not associated with investment banks and not offering hedging contracts. The Company will stand ready to present its hedging analysis to the Commission upon request and will maintain its analysis as described in the body of this report.

No authorization for currency exchange or hedging thereof is sought or authorized. No credit support for issuance in foreign markets is requested or authorized.

5. Cost Competitive

Agent and underwriting commissions for the issuance of debt securities will not exceed the fees as shown in Attachment A, and will not in any case exceed 0.875 percent of gross proceeds.[2] The Company shall demonstrate for all debt issuances and associated activities that the Company achieved all-in rates that, contemporaneously, were both competitive and cost effective.

6. Timely Reporting

A. The Company will promptly provide a written summary notice through the PUC filing center and through email directly to PUC Staff named on the service list for this docket of any issuance or execution of a bond purchase and sale agreement with a delayed issuance feature occurring under an Order pursuant to this application. A summary notice need only show series name, maturity, coupon rate, principal, and agreement date.

B. The Company will also provide the Commission with the customary Report of Securities Issued and Disposition of Net Proceeds statements (Reports) no later than 30 calendar days after any transaction has been closed and funded. Reporting denominated in U.S. dollars will include, but not be limited to: total value of the issuance; total and per unit fees and expenses (including external legal costs); interest costs; credit ratings; and an explanation of the Company's choice and cost of placement. To the extent that fees, expenses, and invoices are not available within the 30-day period, they will be provided to the Commission in final Reports within 120 days after the transaction has been closed and funded.

C. For each securities issuance under condition 3-B, the Company shall report to the Commission within 30 calendar days after any transaction is closed and funded regarding the prevailing market conditions and if applicable, the causes

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[1] See "Recommended Hedging Analysis" on page 13 of this report.

[2] See Attachment A for agent and underwriter commissions for FMB and unsecured notes in normal market conditions.

for all-in spreads exceeding the relevant spreads specified in Attachment A over the UST benchmark yields.

7. Termination of Authority

   The Company's authorization to issue FMB and Debt Securities granted by an order issued pursuant to this application is terminated if either S&P's or Moody's credit rating for Idaho Power secured debt falls below Investment Grade.[3]

8. Authorization End Date(s)

   Provided all conditions and reporting requirements are fulfilled, authorization under an order issued pursuant to this application will remain in effect until superseded or exhausted. Hedging authority ends when securities issuance authority ends.

9. Reservation of Judgment Regarding Reasonableness

   The Commission will reserve judgment on the reasonableness for ratemaking purposes of the Company's capital costs, capital structure, and the commissions and expenses incurred for security issuance and related activities, and may address same in any subsequent rate case or other Commission proceeding.

DISCUSSION:

<u>Issue</u>

Whether the Commission should approve Idaho Power's request to sell up to $500 million of FMB and Debt Securities with maturities not exceeding 40 years, when cost and risk effective, and cancel the Company's previously approved outstanding debt issuance authority, including that authorized in Order No. 16-151 in Docket No. UF-4297 (but excluding the short-term borrowing authorization under Docket No. UF4293).

<u>Applicable Law</u>

Under ORS 757.405, a utility must obtain Commission approval prior to issuing stocks and bonds, notes and other evidences of indebtedness. The Commission may authorize an issuance if it is for one of the permissible purposes listed in ORS 757.415(1), satisfies the criteria of ORS 757.415(2)(b), and, except as permitted, the purpose of the issuance is not reasonably chargeable to operating expenses or

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[3] Investment grade long-term debt is rated BBB– or better by Standard and Poor's Rating Services (S&P), or Baa3 or better by Moody's investor Service (Moody's). Staff does not foresee a loss of ratepayer perceived protection or value absent ratings by Fitch.

income, ORS 757.415(2)(c). Permissible purposes for an issuance under ORS 757.415(1) include the acquisition of property, the construction, completion, extension or improvement of its facilities, the improvement or maintenance of its service, and the discharge or lawful refunding of its obligations.

Finally, OAR 860-027-0030 requires utilities to provide certain information when seeking authority to make an issuance under ORS 757.405-757.415.

Analysis

Idaho Power's Application
The Company seeks authority to issue FMB and Debt Securities not to exceed 40 years in maturity, in one or more series, in amounts not to exceed $500 million in the aggregate. The requested new authority would be incremental to the existing remaining $280 million of issuance authority during the 60-day reconsideration period. During the 60-day reconsideration period, new aggregate FMB and debt securities issuances would not exceed $500 million, drawing first on the older authority. At the end of the 60-day reconsideration period, any unused authority under Order No. 16-151 in Docket No. UF 4297 would be terminated.

The Company asks that it be authorized to issue FMB and Debt Securities with a term not to exceed 40 years. These debt securities, may or may not be registered and may be referred to as Medium-Term Notes (MTN). Any private placement may be arranged with a delayed start if practicable.

Idaho Power asks for authority to enter into interest rate hedging arrangements with respect to the Bonds, including treasury interest rate locks, caps, collars, forward start interest rate swaps and/or swaptions.[4] Any FMB would be secured equally with other FMB under the Company and Deutsche Bank Trust Company Americas current Indenture of Mortgage and Deed of Trust that periodically updated that version initially dated October 1, 1937.[5]

The Company does not request an exemption from competitive bidding requirements of any nature, though in Oregon, competitive bidding is not required. Rather debt issuance must be cost effective and reflective of market conditions regardless of issuance method selected.

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4 A swaption is an option, generally on interest rate swaps, that grants its owner the right, but not the obligation, to enter into an underlying swap.

5 See Exhibit D-1 on Application pages 18, 19 for a history of the revisions to the Company's Mortgage and Deed of Trust and Supplemental Indentures cross referenced to Commission Docket proceedings.

The Company provides estimates for agent and legal fees as well as for out-of-pocket costs. Successful private placement in the Company's estimation will avoid a variety of fees as shown in Attachment C.

Any floating rate notes issued under the Commission's order would be authorized to have interest rates that would be reset with a periodic LIBOR rate source, with an expected issuance cost of no more than one percent of principal. If, as expected, LIBOR would not be available in the near future, permission is requested to use a prevailing alternative acceptable to banks and pertinent entities.

The Company does not request a sinking fund provision or an early redemption feature with any incremental breakage fee or other indemnification. Idaho Power expects to issue debt securities denominated in U.S. dollars, avoiding transactions that could entail currency exchange.

Idaho Power's application considers a range of maturities and recommends market based commissions in terms of aggregate principal amounts of notes sold.[6]

The Company also proposed an abbreviated table of maximum spreads over benchmark U.S. Treasuries (UST).[7]

In the event that all-in spreads over treasuries for MTN exceed other conditions herein, Idaho Power proposes an upward hard cap of 8.0 percent for debt maturities of 15 years of more and a new intermediate hard cap for maximum all-in coupon rate of 7.5 percent for maturities of 7 to 14 years – otherwise accepting the prevailing 7.0 percent hard cap for lesser maturities.

Idaho Power also represents that it has made all appropriate filings necessary with the Idaho Public Utilities Commission and the Wyoming Public Service Commission, and that no Federal Energy Regulatory Commission authorization is required in this regard.

Staff Analysis and Recommendations

In the following analysis, Staff addresses whether the proposed issuance complies with ORS 757.415(1) and satisfies the Commission's no harm standard. Staff performs usual and customary financial review of the Company's filling while also explaining why the Commission should, upon reflecting on current economic trends remain confident that Staff controls provide adequate headroom despite highly optimistic projections in

6 See Application Pages 10, 11.
7 See Application Pages 11.

the recent White House Budget[8] which might imply that the economy could soon overheat, generating pressure upon the U.S. Federal Reserve (Fed) to raise interest rates, and upon the Commission to approve higher hard caps than recommended by Staff herein. Staff provides evidence that current economic conditions differ from both the assumptions incorporated into the White House 2020 U.S. Budget and financial projections made a quarter or more ago.

Use of Proceeds
Authorization as requested will meet usual and necessary utility financial obligations.

Debt Market Conditions
Authorization at this time allows the Company to take advantage of a 15 month low in underlying yields on UST.[9] A Commission re-authorization now provides Idaho Power with greater flexibility in timing expenditures and is not an obligation to issue new debt immediately. There may be additional downward pressures on UST depending on upcoming financial news. Moody's projects that if the 10-year UST yield breaks under 2.4 percent that the Fed will cut (not raise) rates.[10] Amidst concerns about slowing global growth, economists and market analysts are cutting forecasts for economic growth, while expectations of inflation are receding. In addition, the European Central Bank (ECB) unveiled new stimulus measures with both Fed and ECB deciding to discontinue tapering central bank balance sheets.[11] Given these dramatic reversals of global central bank policy, Staff recommends the Commission look for current corroborating evidence before concluding that we are in a rising interest rate environment.[12] See attachment F for additional discussion of interest rate movements.

On March 20, 2019, the Fed left its key policy rate in a range between 2.25 percent and 2.5 percent and indicated it is unlikely to raise rates this year. In late 2018, Fed officials

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8 See the document entitled "A Budget for a Better America, Promises Kept, Taxpayers First", Fiscal Year 2020 Budget of the U.S. Government" (White House Budget) on the White House website: https://www.whitehouse.gov/wp-content/uploads/2019/03/budget-fy2020.pdf.

9 See the Wall Street Journal (WSJ) article, "Treasury Yields Tumble after Fed Restraint)" by Akane Otani published in the US print edition of March 21, 2019.

10 See "Fed will Cut Rates if 10-Year Yield Breaks Under 2.4 Percent" by John Lonski, Chief Economist – Moody's Analytics, released March 21, 2019.

11 See "ECB Reverses Course with New Stimulus Measures" by Tom Fairless and Brian Blackstone published in the WSJ on March 7, 2019.

12 See "Policy U-Turns of ECB, Fed Cascade Around the World" by Brian Blackstone in the March 22, 2019 WSJ.

had signaled they expected between one and three increases in 2019. This is a material policy shift.

Two weeks ago, the ECB went further, saying it would launch new stimulus to support the Euro-Zone economy via cheap loans to banks. It also said it expected to keep its key interest rate at minus 0.4 percent at least through 2019, a longer horizon than before. This was also a major shift from optimism to proactive concern about European GDP growth and economic data trends. As the yield on the 10-year German Bunds turn negative for the first time since 2016, that factor may act as a downward dragging anchor on U.S. interest rates.[13]

The Tax Cuts and Jobs Act of 2017 may well have had the potential to incent American businesses to invest in new plant and equipment, new software, research and development, new processes, and employee training to create long-run increases in productivity leading to faster growth in U.S. Gross Domestic Product (GDP). But much of the cash flows associated with the corporate tax rate dropping to 21 percent were absorbed in huge stock buybacks. As an example, Apple alone spent $62.9 billion on buybacks in the first 9 months of 2018. Along with many other corporations, Apple poured tax savings into stock repurchases when prices were high generating big paper losses. Together S&P 500 companies bought back $583.4 billion of their own shares between January and September of 2018. A cynical person might dwell on the nature of incentives that may have emphasized earnings per share targets over long run American corporate modernization for durable competitive advantage.[14]

Table 1[15]

Corporate Borrowing Rates and Yields

Bond total return Index	Close	Yield (%) Last	Yield (%) Week ago	52-Week High	52-Week Low	Total Return (%) 52-wk	Total Return (%) 3-yr
Treasury Ryan ALM	1495.605	**2.506**	2.584	3.154	2.501	**4.502**	1.075
10-yr Treasury, Ryan ALM	1767.651	**2.537**	2.628	3.232	2.537	**5.511**	0.388

Source: JP Morgan, Ryan ALM, S&P Dow Jones Indices, Barclays Capital, Merrill Lynch

Though the White House Budget continues to make heroic growth assumptions, three quarters of economists surveyed by the National Association for Business Economics

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13 See "Negative Yields Return with Markets Spooked on Growth" by Paul J. Davies and Avantika Chikoti in the March 22, 2019, WSJ.

14 See "Buybacks Come Back to Bite Firms" by Michael Rapoport and Theo Francis in the December 28, 2018, WSJ. Also see "Stock Prices Defy Surge in Buybacks" by Michael Wursthorn in the July 9, 2018, WSJ. Elements of GDP growth and elements of productivity are addressed in "Growth's Magic Ingredient" 2019 Q1 release by the U.S. Bureau of Labor Statistics.

15 As published in the March 22, 2019, WSJ U.S. Edition.

(NABE) see GDP growth cooling in 2019 and a downturn in the U.S. economy in 2020 as likely as not.[16] Staff does not imply that one can time markets as one looks into the future. But if one finds the benchmark 10-year UST is at a 15 month low, it is reasonable to conclude that there is less upward rate pressure than was projected to be occurring when tax reform was passed in December of 2017. Based on Bloomberg forwards, Staff suggests that in the near term, over the next several years, financial markets may see less upward interest rate pressure than a quarter ago.

Addressing CFO, Cap Ex, and FCF
Staff monitors the Company's cash flow from operations (CFO), Capital Spending (CAP Ex or CAPX), and Free Cash Flow to the Firm (FCF). Tables 2 and 3 below illustrate the Company's recent cash flows as reported by Bloomberg and IDACORP, Inc., respectively.

Table 2[17]
Bloomberg Reported CFO, CAPX, and FCF

Year Over Year Change	($ Millions)
CFO	56.5
Cap Ex	7.6
FCF	64.1

As noted in Table 2, the Company has experienced a year over year increase of $56.5 million, $7.6 Million, and $64.1 Million for CFO, CAPX, and FCF respectively.

Table 3[18]
IDACORP Reported CFO, CAPX, and FCF

IDACORP	2014	2015	2016	2017	2018
Net cash provided by operating activities	$ 364.3	$353.2	$344.2	$435.2	$491.6

Staff notes that the cash flows, as reported by the two entities, match and that both cash flows from operations and cash flow to the firm are looking excellent, suggesting

16 See "NABE Outlook" December 2019.
17 *See* Attachment F. Bloomberg FA Function for IDACORP, Inc. As published on Bloomberg, March 25, 2019.
18 See Attachment F. IDACORP Presentation to West Coast Utilities Conference. March 20-21, 2019, Slide A-6. https://www.idacorpinc.com/~/media/Files/I/IDACorp/events/WillCapital%20West%20Coast%20Utilities%20Conference%202019.pdf%20for%20full%20presentation.

strong financial health of the utility. Staff generally believes this affords Idaho Power the ability to access markets and meet utility obligations. However, positive cash flow from operations does not indicate that Idaho Power does not need borrowing authority at this time.

Best Time to Approach Financial Markets

In a recent investor presentation, Steven R. Keen, Senior VP, CFO, and Treasurer of IDACORP, Inc., noted that prior to 2008, Idaho Power could deplete liquid reserves and borrowing authority before going to financial markets without issue. However, post Great Recession, rating agencies and regulators have insisted on proactive maintenance of financial authorities and capabilities, never requiring the Company to go to financial markets under duress, which could translate into higher all-in costs and higher rates for utility customers.[19] Staff agrees with this assessment, and believes that refreshment now allows the Company to nimbly address opportunities for lower cost borrowing in the near term, and any downturn in the economy over the next two to three years.

Staff again notes the previously mentioned healthy cash flows of the Company, but makes no judgment on timing or the best mix of low-cost borrowing and cash flows from operations to best meet normal utility needs and CAPX. Staff reiterates that the best time to approach banks is when you do not have immediate and pressing need for liquidity.

Fixed and Floating Rate FMB and Debt Securities

The Company's FMB place a lien on Company property under its Mortgage and Deed of Trust, as amended and supplemented by various supplemental indentures since inception. The lien acts as collateral for bondholders, which in current market conditions results in a higher credit rating than the Company's unsecured rating, and a decrease of the coupon rate at issuance, as compared with otherwise similar unsecured debt.

Authority to issue unsecured debt provides Idaho Power with additional flexibility, but imposes a burden on the Company to establish at a subsequent general rate case that the cost of issuing unsecured debt was prudent and cost effective compared to cost of issuing FMB, given market conditions and any restrictions Idaho Power operated under at time of issuance. As shown in Attachment B, unsecured debt can bear higher cost than secured, so utilizing this flexibility bears greater scrutiny. Conversely, FMB require both adequate interest coverage cash flows, and an adequate pool of qualified assets.

[19] Q4 2018 IDACORP, Inc. Feb 21 Earnings Call – Edited Transcript. *See* https://www.idacorpinc.com/~/media/Files/I/IDACorp/conference-calls/IDA-USQ_Transcript_2019-02-21.pdf for full transcript.

While Idaho Power has historically mostly issued FMB, authority to issue floating or variable rate debt provides the Company with additional flexibility should it be needed. Interest rates for floating rate notes may be periodically reset based on a fixed spread over 1-, 2-, 3-, 6-, or 9-month LIBOR. In no case will the fixed spread over pertinent LIBOR exceed 1.5 percent. In the event that LIBOR is not reported or is unavailable, Idaho Power and pertinent parties may use a rate from another recognized source or a rate agreed to by the parties intended to approximate LIBOR.

Longer Maturities
Idaho Power and Staff both observe that authorization of maturities up to 40 years can lower costs for ratepayers while diminishing risk of debt maturity concentration. Therefore, Staff recommends the Commission authorize an upper maturity of 40 years.

Private Placement
Should the Company issue in private placement, an additional flexibility is that there is likely to be little or no incremental cost to issue 31-year debt that might reduce the amount of debt maturing in a given year. Debt issued in the private placement market may also be advantageous versus a public offering because it may provide flexibility of timing and size, and lower issuance costs. Private placements generally do not require rating by rating agencies. But, they can have implied ratings based on the Company's current ratings.

Other Technical Expenses
After netting-out issuance fees as illustrated in Attachment C, the Company expects to achieve about $494M in aggregate net proceeds, not including any OID determined at the time of issuance.

Representative aggregate fees and charges in Attachment C are higher than for recent benchmark issuances. The Company may issue multiple separate sets of FMB or Debt Securities spread out over time rather than a single set of coordinated issuances within the same quarter. However, Idaho Power stands ready to show that issuance costs were consistent with component costs for like stand-alone issuances in future audits or general rate cases.

Early Redemption Features
Idaho Power seeks authority to issue FMB with no express limit of Idaho Power's ability to use an early redemption feature. Staff agrees that the requested flexibility is reasonable. And, the Company will stand ready to demonstrate how any early redemption executed was cost effective based on prevailing market conditions at the time of execution.

Allowing the early redemption feature is reasonable because shorter maturity debt may be more cost effective should there ever be a need for flexibility until Idaho Power financial metrics allow for the issuance of additional FMB.

A make-whole redemption feature allows an issuer to call bonds at any time at a cost equal to the future debt service discounted back to the redemption date. Such provisions are usual, and generally to ratepayers benefit. The discount rate for a make-whole provision within a call feature is likely be a rate based on the prevailing treasury yield to current maturity plus 50 basis points. This type of redemption does not typically require the issuer to pay a higher coupon or fee since the bond holder is effectively made whole.

The Company may also choose to implement other redemption features that would allow Idaho Power an option to call FMB or Debt Securities in the future at a rate determined at the time of issue. The redemption rate can be set at par or at some premium and is dictated by market conditions at the time of sale. These types of call provisions usually require that the issuer pay a higher coupon or interest rate to compensate the bondholder for the risk that their bonds may be called prior to maturity. Such provisions may also require a breakage fee or indemnification for any loss or costs.

Selection of Agents
Selection of agents, underwriters, and external counsel may include entities associated with the Company's outstanding debt based in part on knowledge of the Company's business, and proven ability to place debt, and to provide cost effective services. The Company may select additional service providers for the issuance of the FMB and/or Debt Securities as it deems appropriate.

Recommendations

Hard Cap Alternative
Staff recommends that the Commission impose Staff's recommended condition that in the event all-in spreads exceed the relevant maximum spread over UST set forth in Attachment A, the Company may still issue FMB or Debt Securities without further Commission approval if the all-in rate does not exceed a "hard cap" of 7.0 percent, subject to additional reporting requirements outlined in Condition 6.[20] Idaho Power asks for a hard cap of 8.0 percent. However, a 7.0 percent all-in rate "hard cap" allows adequate headroom to assure Company access to debt markets, while providing reasonable cost controls to protect ratepayers. The level is based on Staff's news feeds

[20] See the definition for "All-in Cost" by browsing to the lower right corner of the Commission's home webpage at: http://www.puc.state.or.us/Pages/index.aspx. Then, click the Quick Link: "Standard Data Requests for Energy Rate Cases" and scroll to page 32, "Terms."

and both Staff and U.S. Federal Reserve analysis. This level is neither overly permissive nor excessively constricting. It represents analysis that is current, comprehensive, and reflective of best available information at this time.

Hedging Authority
Because Idaho Power proposes to engage in interest rate hedging arrangements other than delayed start in private placement with *de minimis* incremental cost and risk with respect to issuances authorized under this order, Staff recommends that the Commission adopt Staff's Condition 4, requiring the Company to either conduct its own analysis or obtain an independent third-party analysis of any hedging transactions prior to execution of the transactions.[21]

Idaho Power agrees with Staff Condition 4, as memorialized here, that before entering into a financial hedging arrangement for the FMB or Debt Securities, the Company will perform "its own" in-depth analysis of incremental risks and costs represented by hedging, or rely on independent third party analysis.

Recommended Hedging Analysis
Staff believes that a robust hedging analysis should,

- Be informed by, but should not solely rely on, investment bank provided materials;
- Place minimal weight on unverified indicative data and select range of years "snapshot" trend analysis;
- Clearly identify material assumptions and answer the question, "Who wins and who loses and how much, if assumptions and correlations do not hold true?";
- Capture contemporaneous cost quotes for hedging products, customized to allow the Company to avoid taking on incremental cost and risk in excess of the underlying volatility the Company strives to manage, inclusive of swaps with asymmetric distribution of outcome tails that trade some likelihood of surplus upside potential gain for elimination of downside risk should hedging assumptions and expected correlations not hold true;
- Disaggregate any vanilla swaps and standardized hedging product from bond and debt securities issuances, and compare the cost of those products sourced via investment banks against the cost of exchange traded derivatives; and
- Be benchmarked against alternatives inclusive of no hedge and delayed start in private placement, addressing outcomes under potential outlier events as well as most likely outcomes.

[21] Such hedging transactions could include treasury interest rate locks, treasury interest rate caps, treasury interest rate collars, treasury options, forward starting interest rate swaps, and swap option combinations (swaptions).

To the extent Idaho Power obtains the third-party quantitative cost and risk analysis, such analysis should be provided by a directly retained independent third-party expert firm not associated with investment banks and not in the business of finding or acting as hedging counterparties.

The Company will draw upon experience gained from previous hedging transactions to control the cost of like future hedging activity, in part to reduce the costs of customized hedging arrangements, including investment bank fees and legal costs of delayed starts in private placements.

Idaho Power also represents that its hedging policy is a general outline and not an analytic evaluation tool that can be relied upon in lieu of the Company's own case-by-case analysis of whether to enter into a hedge. In addition, the Company hedging policy allows for multiple accounting methods, and the Company represents that the hedging policy is not an after-the-fact evaluative tool that measures the cost vs. benefit of the hedge and determines the extent to which it managed underlying volatility. Thus the Company represents here that it will: 1) Perform its own analysis prior to entering into any hedging; 2) Monitor active hedges for unfavorable developments; and 3) Carry out after-the-fact hedging evaluations from a rigorous and practical financial operations perspective, understanding that this perspective will not be the same as accounting tests of effectiveness. For all hedging activity, other than delayed start in private placement with *de minimis* incremental cost and risk, Idaho Power will maintain its analysis in a MS Excel spreadsheet form that can be provided to Staff on request. Idaho Power will maintain this analysis at least through the conclusion of its next general rate case in Oregon after each financial hedge is completed or unwound.

Provision for New Bank Fees
Additionally, the Company may incur a new prevailing fee(s), not to exceed an aggregate 10 basis points of affected principal. If relying on this provision, Idaho Power's next reporting to the Commission should include materials to demonstrate that this cost was new and market-pervasive at time of issuance. This flexibility addresses the potential for an additional fee(s) or charge(s) by investment banks, agents, organizers, or other parties that is not part of itemized bond issuance costs routinely encountered in April 2019 bond markets.

Currency Exchange Risk
No international market access requiring currency exchange is requested or authorized.

Credit Ratings
Idaho Power's FMBs are currently rated as:

Moody's: A1 **S&P**: A–

Idaho Power's Unsecured Long-Term Debt is currently rated as:

Moody's: A3 **S&P**: BBB

In general, the interest rate or coupon is higher for unsecured debt because the debt is not backed by any Idaho Power assets and therefore bond-rating agencies set the unsecured ratings below secured ratings. Commission authorization as recommended herein is directly supportive of the prudent maintenance of the above credit ratings. Staff therefore recommends that the Commission view the requested refreshment of authority to issue and sell or exchange FMBs and Debt Securities, at this time, as reasonably necessary for efficient Idaho Power utility operations.

Pro-Rata Issuance
Securities will not be issued on a pro-rata basis, using a proportional or share-of-outstanding securities basis.[22]

Underwriter and Agent Fees
Appendix A also shows Staff's recommendation regarding the maximum range of allowed agent and underwriting commissions for issuances. Underwriters' commissions represent the maximum commission to be paid by the Company and vary depending on the maturity of the Debt Securities issued (e.g., 0.875 percent is estimated to be the fees for issuances with maturity dates of approximately 30- to 40-years). Shorter maturities typically require lower commissions than do longer maturities.

Staff's recommended limits on underwriting commissions are stated in basis points (bps) or percentages of aggregate issuance amounts. Under Staff's recommendations, underwriting commissions will not in any case exceed 0.875 percent of gross proceeds (approximately $4.4M in aggregate across the requested authorization. Staff's recommendations in this regard are a little higher than what Idaho Power proposes. That may be because Staff relies on indicative market information centered on utilities Staff sees as close peers to Oregon jurisdictional energy utilities, which are small to mid-sized, and tend to issue somewhat smaller tranches of securities than represented by all U.S. electric utilities followed by Value Line.

Spreads over UST Yields
Staff recommends replacing the Company's requested values on page 3 of its Application with the values shown in Attachment B to this memorandum. Staff's

[22] See Application page 4, Part B.

recommended values in Attachment B are based in part on Bloomberg data summarized by the graphs in Attachment D. Limits shown in Attachment B allow adequate headroom for the Company to issue debt securities under financial market conditions anticipated by the Board of Governors of the Federal Reserve System over the next several years.[23]

As shown in Attachment C, Staff's recommended spread over UST provides adequate headroom for the Company's likely maturities for debt security issuances. Differences from Company requested values reflect Staff retaining differentiation of slightly different maturities allowing for common benchmarking across Commission jurisdictional energy utilities. Though a bit more restrictive, Staff's value still provide adequate head room in current and projected market conditions over the next two years.

Capital Structure
Idaho Power targets a 50/50 Debt/Equity capital structure over time. An order authorizing the Company to issue debt securities in the form and quantity requested would refresh Idaho Power's authorization to issue long-term debt consistent with the Company's current utility obligations.

Estimated Legal Fees
Idaho Power estimates an additional $100,000 in aggregate legal fees going forward as compared to Idaho Power's last application for debt issuance authority three years ago. Staff recommends that the Commission reserve judgment on whether legal costs were well controlled and monitored for cost reflective of the seniority and expertise required by the various work at hand.[24] Higher costs can reflect containable escalations over time or can indicate the need to prepare documentation different than used in the past to engage new agents, investment banks, and issuance methods or hedging approaches.

The estimates before the Commission can change. Staff will focus on legal cost of issuance in the next audits and general rate case. To that end, Idaho Power is asked to retain, available for review upon Commission request, hard or electronic copies or itemized legal receipts and notated billings through the next general rate case, even if this is more information than the Company's accounting system generally accepts without aggregation of costs. This detail allows legal costs to be reviewed in context against market benchmarks for like targeted legal work.

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23 Staff accessed the materials of the Board of Governors of the Federal Reserve System's latest statistical release and the 'Beige Book" posting on March 22, 2019, at https://www.federalreserve.gov/.

24 See page 14 of Application.

Reasonably Necessary or Appropriate
Staff recommends the Commission find that the requested authorization is necessary for Idaho Power to deliver safe and reliable utility service. Refreshment of debt issuance authority now allows for the Company to take advantage of relatively low rates provided there is a timely utility purpose. The end result of this reauthorization is likely a lower cost of long-term debt for Idaho Power's ratepayers.

Won't Impair Idaho Power's Ability to Perform
Authorization amounts and issuance methods are prudent and appropriately within the scale and scope of proper performance of the Company. Staff's recommended controls allow adequate headroom based on current forward looking financial market expectations. In the unlikely event that the economy heats up in the next two years such that the Fed aggressively raises interest rates, or debt markets become higher cost through dysfunction as experienced in 2008, the Company may come before the Commission again and ask for expedited remedy.

Shelf Registration with the U.S. Securities and Exchange Commission (SEC)
Idaho Power represents that the Company will register all bonds and debt securities where necessary with the SEC pursuant to Rule 415 of the pertinent Act (Shelf Registration). The Company further indicates that this will enable Idaho Power to take advantage of attractive market conditions efficiently and rapidly.

Compatible with the Public Interest
The maintenance of Idaho Power financing tools in proactive readiness is consistent with Oregon public interest. Each necessary utility function requiring financing will benefit from lower rates so facilitated. Market transactions and utility construction also may avoid the need for guarantees, such as deposits or letters of credit, due to the certainty of Commission authority requested herein. Indirectly, this reduces rate pressure on Idaho Power customers in Oregon. At this time Idaho Power does not expect to file an Oregon general rate case this year.[25]

No Harm
Staff's proposed framework and conditions preclude too narrow of an authorization that could cause the Company to be captive to specific agents or issuance methods. As earlier discussed, by refreshing authority to access debt markets when central bank policy is highly accommodative, the Commission enables Idaho Power to apply its proven expertise in obtaining the best all-in coupon rates at least risk for ratepayers.

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[25] See "Q4 2018 IDACORP, Inc., Feb. 21 Earnings Call – Edited Transcript" compiled by Thomson Street Events and Released Mar. 4, 2019. Therein review Darrel T Anderson guidance on page 4, 5.

Conclusion

Staff concludes that, subject to Staff's recommended conditions, the proposed issuance satisfies the Commission's and the statutory criteria. Staff recommends that the Commission approve the Application, subject to Staff's recommended conditions and reporting requirements. Thereafter, FMB and Debt Securities may be issued under this new authority, subject to Staff's recommended conditions, in any proportion and in any combination of differently sized offerings, which may be issued pursuant to a shelf registration filed with the SEC, or private placements, provided that the combined aggregate total of these offerings does not exceed $500 million, inclusive of any OID.

Staff review of this application indicates that the debt securities issuance with maturities equal to or less than 40 years will do no harm and can be expected to benefit ratepayers. The Company has asked for certain flexibilities, many of which Staff found efficacious. Those flexibilities allow the Company to negotiate more strongly because the authorization does not restrict the Company from selecting issuance methods that best meet utility needs through agents proven knowledgeable and effective in marketing or arranging placement for Idaho Power's securities.

The Company has reviewed and agrees with this memo, including the Staff proposed conditions and reporting requirements.

Idaho Power is scheduled to obtain the required board resolutions for the shelf registration on or about April 15, 2019. Given favorable current market conditions for highly rated utility bond issuance, Staff recommends that the Commission prepare but not issue an order in this docket until the Commission is in receipt of the Company's filing of said certified board resolutions.

PROPOSED COMMISSION MOTION:

Approve the Company's application for authority to issue and sell or exchange up to $500 million of First Mortgage Bonds and Debt Securities subject to the nine conditions and reporting requirements set forth in Staff's Recommendation.

Attachment A

Maximum Allowable
Agent and Underwriter Commissions
for FMB and Unsecured Notes
in Normal Market Conditions

Maturity		**Maximum Underwriter Commission**
At Least	**But Less Than**	
Years		**Basis Points (bps)**
1	1.5	15
1.5	2	20
2	3	25
3	4	35
4	5	45
5	7	60
7	10	62.5
10	**12**	**65**
12	15	67.5
15	20	70
20	25	75
25	**41**	**87.5**

Attachment B

Maturity		Maximum Annual All-In Spread Over Benchmark U.S. Treasury (UST) Yields	
Years		Basis Points (bps)	
Over	Not More Than	FMB	Unsecured Debt
1	5	150	200
5	7	175	
7	**10**	**200**	225
10	20	225	250
20	**30**	**250**	275
30	40	275	300

Note: Comparing Bloomberg data[27] for like rated utility bonds, Staff finds that the above limitations provide access to capital with reasonable headroom for likely combinations of issuances in public, and private placement with delayed start at no or minimal incremental cost that could be beneficial to ratepayers, over the next two years. First Mortgage Bonds are abbreviated as FMB above.

[27] Staff referenced Bloomberg FMB and Unsecured USD indexed data on March 8, 2019. One Basis Point (bp) is defined as one-one hundredth of a percentage point, i.e., 100 bps equals one percent.

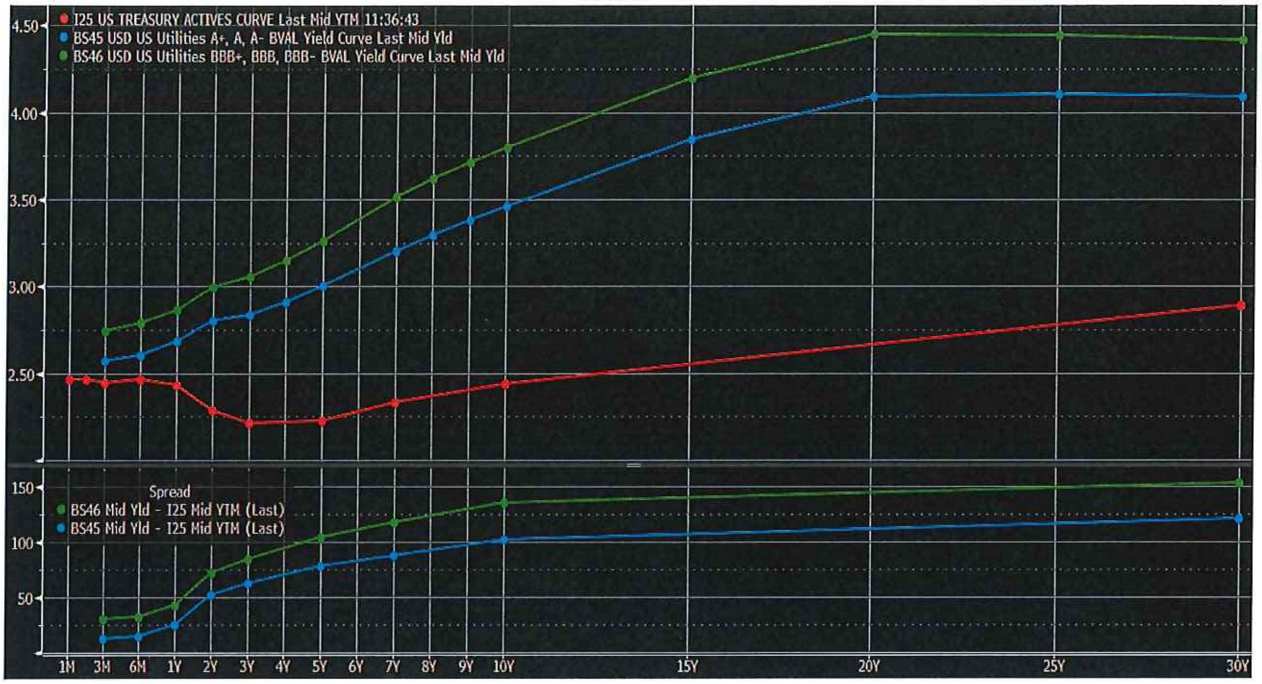
Attachment C

IPC Estimated Representative Issuance Expenses

Item	Debt Securities $	Per $100
Principal Amount (Face Value)	$500,000,000	$100
Plus Premium or Less Discount	(Not Applicable)	
Gross Proceeds	**$500,000,000**	$100
Underwriter Spread & Commissions	4,375,000	$ 0.875
SEC Registration	75,000	
Regulatory Agency Fees	5,000	
Printing & Engraving	60,000	
Trustee Charges	50,000	
(Independent Public) Accounting	100,000	
Rating Agency	900,000	
Company & Underwriter's Legal Fees	700,000	
Miscellaneous Costs	20,000	
Total Deductions	6,265,000	$ 1.253
Estimated Realized Net Amount	**$493,735,000**	**$98.747**
Excluding Underwriter Commissions	1,910,000	

Attachment D

Bloomberg Current
Investment Grade Utility Spreads Over UST
Bloomberg CRVF Function Plot
Accessed by Staff on March 25, 2019



Referent Points of Interest:
10 Year Maturity Range from **A rated 102 bps** to B rated 136 bps,
30 Year Maturity Range from **A rated 121 bps** to B rated 153 bps.

Attachment E – Source WSJ

2016-2019 Fixed Income Trends

WSJ	6-Feb-16	5-Apr-16	1-Jul-16	25-Oct-16	31-Jan-17	13-Apr-17	7-Nov-17	8-Jan-18	22-Mar-18	15-May-18	2-Oct-18	3-Jan-19	22-Mar-19	
UST Yields	Yield (%) At Close	Yield (%) Noon EST	Yield (%) Noon EST	Yield (%) Noon EST	Yield (%) At 1 PM	Yield (%) 2:57 PM	Yield (%) 9:30 AM	Yield (%) 9:30 AM	Yield (%) 2:00 PM	Yield (%) Noon	Yield (%) At Close	Yield (%) At Noon	Yield (%) At Close	Yr
1-Year Note	0.516	0.568	0.458	0.653	0.766	1.021	1.503	1.785	2.046	2.302	2.591	2.568	2.471	1
2-Year Note	0.670	0.728	0.597	0.865	1.208	1.206	1.617	1.960	2.275	2.585	2.811	2.427	2.317	2
3-Year Note	0.830	0.846	0.698	1.000	1.467	1.415	1.726	2.063	2.435	2.754	2.881	2.393	2.241	3
5-Year Note	1.161	1.180	0.998	1.276	1.918	1.771	1.977	2.284	2.625	2.920	2.951	2.406	2.235	5
7-Year Note	1.486	1.498	1.259	1.547	2.261	2.045	2.165	2.405	2.749	3.038	3.024	2.476	2.328	7
10-Year Note	1.749	1.729	1.443	1.757	2.463	2.236	2.305	2.481	2.819	3.076	3.066	2.583	2.435	10
30-Year Bond	2.577	2.551	2.224	2.500	3.069	2.892	2.769	2.816	3.063	3.202	3.218	2.915	2.873	30

2015 Q4 Federal Funds Rate Target lifted by 25 bps to (0.25 to 0.50)
2016 Q4 Federal Funds Rate Target lifted by 25 bps to(0.50 to 0.75)
2017 Q1 Federal Funds Rate Target lifted by 25 bps to (0.75 to 1.00)
2017 Q2 Federal Funds Rate Target lifted by 25 bps to (1.00 to 1.25)
2017 Q4 Federal Funds Rate Target lifted by 25 bps to (1.25 to 1.50)

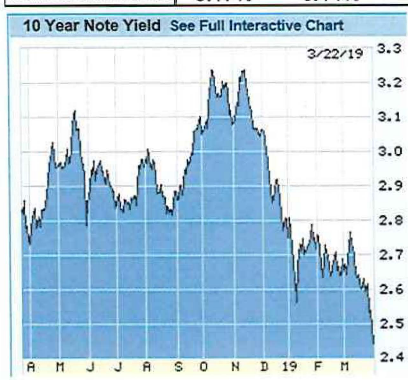
2018 Q1 Federal Funds Rate Target lifted by 25 bps to (1.50 to 1.75)
2018 Q2 Federal Funds Rate Target lifted by 25 bps to (1.75 to 2.00)
2018 Q3 Federal Funds Rate Target lifted by 25 bps to (2.00 to 2.25)
2018 Q4 Federal Funds Rate Target lifted by 25 bps to (2.25 to 2.50)

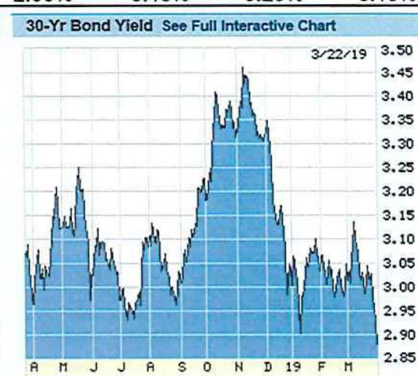
0.438
BPS
Spread
10- to 30-Yr
UST

Consumer Interest Rates

Source: WSJ

Date	11-Mar-16	1-Sep-16	25-Oct-16	31-Jan-17	13-Apr-17	11-Jul-17	1-Sep-17	8-Jan-18	15-May-18	6/31/2018	2-Oct-18	22-Mar-19	Date
15-Yr Mortgage	2.92%	2.79%	2.82%	3.36%	3.23%	3.27%	3.03%	3.37%	4.04%	4.05%	4.13%	3.62%	15-Yr Mortgage
30-Yr Mortgage	3.70%	3.51%	3.55%	4.16%	4.01%	4.05%	3.79%	3.92%	4.57%	4.58%	4.73%	4.17%	30-Yr Mortgage
New Car Loan 48 Mo.	3.17%	3.14%	2.93%	3.13%	3.23%	3.13%	3.01%	3.23%	4.27%	3.89%	3.94%	4.72%	New Car Loan 48 Mo.





Attachment F

Table A
Capital Expenditures, Cash from Operations, and Free Cash Flow

In Millions of USD	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	Current/LTM
Cash from Operations (CFO)	249.269	305.549	364.343	353.194	347.706	435.161	491.626	491.626
Capital Expenditures (CAPX)	-239.788	-235.31	-274.094	-294.021	-296.95	-285.488	-277.853	-277.853
Free Cash Flow (FCF)	9.481	70.239	90.249	59.173	50.756	149.673	213.773	213.773

Source: Bloomberg

CFO	**56.5**
CAPX	**7.6**
FCF	**64.1**

Table B
IDACORP Reported Operating Cash Flows

IDACORP	2014	2015	2016	2017	2018
Net cash provided by operating activities	$ 364.3	$353.2	$344.2	$435.2	$491.6

Source: IDACORP Presentation to West Coast Utilities Conference. March 20-21, 2019. Slide A-6.

Attachment F

Yield Gap Isn't a Recession Guarantee

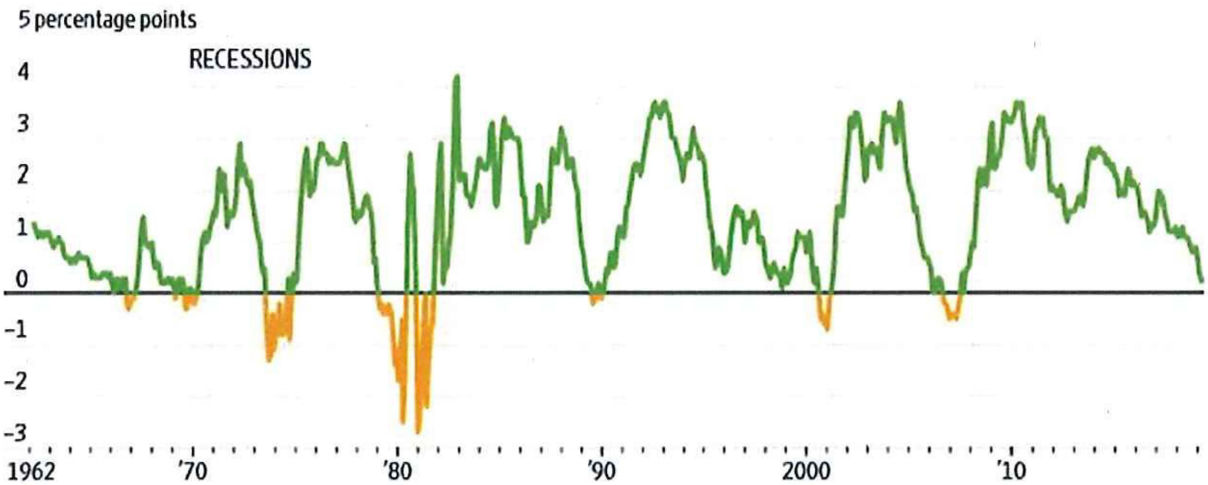
by James Mackintosh – WSJ Street Wise Column – Mar. 25, 2019

The **market's most reliable recession indicator is finally flashing red**. With the **Treasury yield curve inverting** on Friday – the **10-year yield fell sharply to be lower than the three-month for the first time since 2007** – is it finally time to prepare for an economic downturn?

Interpreting a Recession Warning

The yield curve inverted on Friday as the 10-year Treasury yield fell below the 3-month yield. Ahead of recessions it usually stays inverted for months.

10-year Treasury yield minus 3-month yield, monthly average



Note: 3-month yield is secondary market until 1982, then constant maturity rate. Data through February.
Source: Federal Reserve Bank of St. Louis

The answer is nuanced. It is true that the yield curve is the best forecasting tool for recessions, having inverted before each of the last seven recessions as measured by the National Bureau of Economic Research.

But the idea that the gap between short- and long-dated Treasury yields is a rock-solid predictor you can use for your portfolio positioning is mistaken in several ways.

Start with what the **inversion tells us**. It means **investors think tha**t the **Federal Reserve is going to cut rates**, so the current short-dated yield isn't going to be sustained over the full 10 years. Since the 10-year discounts the average short rate over the period; **that should mean the 10-year falls**.

That isn't quite the same thing as predicting recession, since **the Fed can cut rates without recession**. Indeed, the two times that yield curves inverted on most measures without recession were in 1998 and 1965-66, both times when the Fed slashed rates and the economy continued to grow.

The futures market on Friday intensified its bets on rate cuts after more weak economic data. Federal funds futures put a 60% chance on rate cuts by December, with a 20% chance of two or more cuts.

In pre-crisis times such small rate cuts would merely flatten the yield curve a bit. But the bond market has changed with quantitative easing, making inversion much easier. Before QE there was usually some extra yield, known as the term premium, built into 10-year Treasurys as compensation for locking your money up for so long. That meant that to get to an inversion, investors had to expect really significant cuts, which rarely happen without recession.

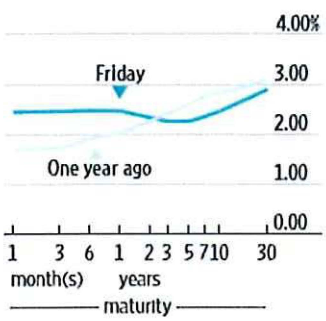
But in recent years the term premium has been nonexistent or negative, so the gap between the 10-year and three-month yield was lower to start with. Even anticipation of quite small cuts can make the curve invert.

There are other reasons to be cautious, too.

Even when the yield curve provides a correct warning of recession, it doesn't say how far away it is. Sometimes it follows the inversion within months. Last time it took almost two years.

The yield curve might be less reliable than its recent U.S. history suggests. It has a terrible record internationally, for instance. It flat-out hasn't worked in Japan, also has a poor record in the U.K. and in Germany provided no advance warning of the 2008 recession, the worst since reunification. At the moment the curve isn't inverted in any of them thanks to super-low or negative interest rates, even though all are struggling with greater economic troubles than the U.S.

Treasury yield curve
Yield to maturity of current bills, notes and bonds



Sources: Ryan ALM; Tullett Prebon; Dow Jones Market Data

Which part of the curve you look at matters, too, and how long an inversion lasts matters. Friday brought the inversion of the three-month and 10-year for the first time since 2007.

Prof. Campbell Harvey of Duke University analyzed inversions in the 1980s and concluded that the 10-year/ three-month was the best part of the curve to use. He also concluded it needs to be inverted on average over a quarter to provide a solid signal, not just for a few days – let alone just part of a day, like on Friday. Otherwise it is merely predicting a slowdown, something everyone already believes is on the way after last year's tax-cut sugar rush. Since the time of the study, the only time the curve inverted without recession was in 1998, but then only for a few days, not the full quarter.

Even this isn't enough. There are different ways to measure the three-month yield, and the one the market uses isn't the best, according to Prof. Harvey. He prefers the Fed's constant maturity yields, which are a few hundredths of a percentage point higher.

Recession might be on the **way**, **but so far** the **yield curve** is **just telling us** that the **economy** is **weakening**. And you already knew that.