ORDER NO. 19-389

ENTERED Nov 07 2019

BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UF 4314

In the Matter of

IDAHO POWER COMPANY,

Application for an Order Authorizing up to $450,000,000 Aggregate Principal Amount at any one Time Outstanding of Short to Mid-term Borrowing.

ORDER

DISPOSITION: STAFF'S RECOMMENDATION ADOPTED

At its public meeting on November 5, 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. CA4

PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: November 5, 2019

REGULAR ____ **CONSENT** __X__ **EFFECTIVE DATE** __**Upon Commission Approval**__

DATE: October 25, 2019

TO: Public Utility Commission

FROM: Matt Muldoon

THROUGH: Jason Eisdorfer and John Crider **SIGNED**

SUBJECT: IDAHO POWER COMPANY:
(Docket No. UF 4314)
Requests authority to issue up to $450 million in aggregate simultaneous borrowings.

STAFF RECOMMENDATION:

Staff recommends the Commission approve Idaho Power Company's (Idaho Power, IPC, or Company) application for up to $450 million in aggregate simultaneous principal amount of borrowings with a maturity of three years or less (Borrowings), and to renew a supporting credit facility (Credit Facility), subject to the following nine conditions and reporting requirements.

1. Authorization Limit
   A. Total borrowings under committed unsecured lines of credit, extensions of existing or new lines of credit, and uncommitted credit facilities under this authority from all financial or other institutions or individuals (hereafter referenced collectively as Credit Facilities) shall not exceed and shall not guarantee activity described in (B) below in excess of $450 million (M) at any one time outstanding;[1]
   B. Aggregate loans, promissory notes, commercial paper, fixed-or floating-rate debt or other borrowings or obligations, whether of fixed maturity or rolled-over, (hereafter referenced collectively as Borrowing Activity) authorized by

[1] Should market conditions be such that it is less costly or otherwise necessary to arrange for a larger $500M Credit Facility than to arrange for an up to $450M facility as specified, the Company would have the flexibility to arrange for such a larger Credit Facility, but the use of the facility would be restricted as described herein.

this authority shall not exceed a total of $450M at any one time outstanding; and

C. The sum of all amounts drawn from Credit Facilities in (A) and Borrowing Activity in (B) under this authority will not, at any one time, exceed $450M outstanding.

2. Withdrawal of Prior Authorization

Authority for Borrowing and Credit Facilities Activity granted in Order No. 15-267 (see below) is withdrawn effective 60 calendar days from the date of an authorizing Order in this Docket, if no request for rehearing or reconsideration of such an Order in this Docket is received within this 60-day period. In no event will the Company's short-term borrowing authorization under Order No. 15-267 and any order issued in this docket exceed $450M at any one time.

Order No.		**Docket No.**		**Prior Authorization**
15-267	–	UF 4293	–	$450 Million[2]

3. Cost Requirements

Subsequent to an authorizing Commission order pursuant to this Application, the Company may undertake Borrowing Activities or draw down on the refreshed Credit Facility without further Commission approval provided that proceeds are used for lawful utility purposes, and **provided either**:

A. Credit Facility arrangements will not exceed the limits specified in 1(A) above and maximum component and aggregate fees as shown in Attachment A.

B. Borrowing Activity may be either discounted at the rate prevailing for comparable quality and maturity or interest bearing to be paid at maturity. Rates and charges will be no greater than that for utilities with like credit facilities and like credit ratings; however, profit to any commercial paper dealer or agent will not exceed 1/8th of one percent (0.125%) of the principal amount of each note.

4. Hedging and Currency Exchange

No authorization to enter into interest rate hedging arrangements is sought or authorized.

No authorization for currency exchange or hedging thereof is sought or authorized.

No credit support for issuance in foreign markets is requested or authorized.

[2] The Company confirmed in reviewing this public meeting memo that the new credit facility will replace that of Docket No. UF 4293, authorized by Order No. 15-267.

5. Cost Competitive

   The Company shall demonstrate that for all Credit Facilities and Borrowing Activity, the Company achieved arrangements that contemporaneously were:

   A. Competitive; and

   B. Cost effective.

6. Timely Reporting

   A. The Company will provide the Commission within 30 calendar days after any revolving Credit Facility has been signed; a copy of the executed credit agreement; and a report demonstrating that any fees, margins over underlying securities, interest rates, and both itemized and total expenses are consistent with the provisions in Conditions herein. The Company will explain any fees in excess of usual and customary market ranges shown in Attachment A.

   B. The Company shall report on the status of credit facilities and issuances under this authority as of the end of each calendar year, for all or part of which this authority is in effect, to arrive at the Commission in paper and electronic spreadsheet form by April 30 of the following year.[3] The Company will include a summary of activity within the prior calendar year; quarterly and end-of-year outstanding balances, letters of credit issued, interest accrued, itemized and total fees paid (showing the basis of each); and where applicable, an explanation of the Company's choice of debt type, proportion of fixed- versus floating-rate debt for given maturities; and, how Borrowing Activities best fit prevailing conditions, objectives, and expectations.

   C. The Company will notify the Commission in writing within 30 calendar days of <u>each time</u> the Company extends any Credit Facility or Borrowing Activity where the extension terminates after December 31, 2024.

      No extension of any borrowings or facilities is allowed beyond December 31, 2026, as provided for in Condition (7).

   D. The Company will notify the Commission in writing within 30 calendar days after <u>each election</u> by the Company to enlarge its new Credit Facility beyond $300M initially, and beyond each successive higher level thereafter, none of which higher levels are to exceed $450M, except as provided in footnote (1).

   E. The Company will notify the Commission in writing within 30 calendar days after any transaction is implemented requiring the Company to exceed cost limits provided in Condition (3) regarding:

      i. The prevailing market conditions and causes of the higher costs; and

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[3] This timeframe allows the Company to coordinate annual Commission and SEC reporting. Staff considers annual reporting is of sufficient frequency versus the semiannual reporting required for the prior credit facility authorized as noted in footnote (2).

ii. The steps taken by the Company to minimize costs in this circumstance.

7. Termination of Authority

   Realization of either following condition will terminate any authority granted in an Order issued pursuant to this application:

   A. The Company's credit ratings fall below Investment Grade[4] as determined by either Standard & Poor's (S&P)[5] or Moody's.[6]

   B. Termination date is reached inclusive of any extension noted in Condition (8).

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 on December 31, 2026.

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 Credit Facilities and Borrowing Activity. The Company will be required in future rate proceedings to show that capital costs and capital structure; maturities' concentration; Credit Facilities and Borrowing Activity commissions, use, expenses and fees, and other factors are just and reasonable on both component and aggregate bases.[7]

   Approval of this application and the conditions and requirements herein by the Commission does not constitute a precedent or finding as to whether any or all Credit Facilities or Borrowing Activity shall be treated as long-term debt for purposes of any minimum capital requirement pursuant to a Commission Order.

DISCUSSION:

Issue

Whether the Commission should again refresh Idaho Power's borrowing authority and associated credit facility that was last refreshed by Commission Order No. 15-267 in Docket No. UF 4293 with the same aggregate principle of $450M authorized. Further, should Idaho Power have the new flexibility to borrow for up to three years under the newly requested authorization, which is a longer maturity than that last reauthorized.

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4 Investment grade long-term debt is rated BBB– or better by S&P, or Baa3 or better by Moody's. Staff finds it sufficient to rely on S&P and Moody's investment grade credit ratings.

5 S&P refers to Standard & Poor's, which is a subsidiary of The McGraw-Hill Companies.

6 Moody's refers to Moody's Investors Service, which is a division of Moody's Corporation.

7 The Company has the burden of proof to demonstrate its financing activities are just and reasonable.

Applicable Law

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 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.

Idaho Power's Application
The Company seeks authority to make up to $450 million aggregate principal amount at any one time outstanding of borrowings with maturity of three (3) years or less. Idaho Power also asks for authority to refresh its supporting credit facility in advance of expiration to secure favorable terms with participating banks and to demonstrate to credit rating agencies and others that the Company has multiple-year relatively short-maturity borrowing authority in place. This application is largely an extension of a successful financing and liquidity program at Idaho Power.

The current credit facility of up to five-year life (with up to two separate, cumulative, and optional one-year extensions) would be timely replaced with a like credit facility. To control costs, the supporting Credit Facility would have an accordion feature. Borrowing authority would start at $300 million to control costs, but may be extended to $450 million if Idaho Power has utility purposes. This feature provides both flexibility and cost control. Additionally, the credit facility lowers the costs of the borrowings under this requested authority. When a portion of the potential of the Credit Facility is used to bolster short-term borrowings, unsecured letters of credit, or unsecured promissory notes or like other financial activities, that portion is not available to be drawn down on by the Company. This framework is unchanged, though participating banks and financial institutions may vary going forward.

Market conditions now make it reasonably likely that the flexibility to borrow with up to three years maturity inclusive will reduce cost to the Company and its ratepayers. Idaho Power asks the Commission therefore to allow up to a three year maturity for borrowings under this authorization.

Idaho Power is silent regarding interest rate and currency exchange hedging authority requested and is therefore presumed to not ask for or require such authorization.

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.

The Company provides estimates for agent and legal fees and out-of-pocket costs. Any successful private placement may avoid certain fees shown in Attachment A.

Any floating rate notes issued under the Commission's order would be authorized to have interest rates that would be reset with a periodic London Interbank Offered Rate or 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. Idaho Power expects to issue debt securities denominated in U.S. dollars, avoiding transactions that could entail currency exchange.

Analysis

Diversity of Sourcing
The Company's Credit Facility will have one or more lead agents and a number of additional banks as participating agents, such that the loss of any one bank or agent should limit the impairment to the Company's access to credit markets.[8] The 2008 bankruptcy of Lehman Brothers still highlights the risk of concentrating Credit Facilities with a small number of counterparties. This concern will be met satisfactorily.

Borrowings
The Borrowings will include unsecured promissory notes to be issued and sold by Idaho Power through various commercial paper dealers or agents or directly by the Company. Each note issued as commercial paper will be either discounted at the rate prevailing at the time of issuance for commercial paper of comparable quality and maturity, or will be interest bearing to be paid at maturity. Each note issued as commercial paper will have a fixed maturity and will contain no provision for automatic roll-over with a like replacement issuance or borrowing. These program elements are unchanged from the prior authorization, again except for the allowance of up to three year maturities.

Expenses
The Company represents that it will endeavor to control costs to usual and customary level of expenses shown in its application. In no case will Idaho Power accept fees in excess of the Maximum Authorized component and aggregate levels shown in Staff Attachment A. In addition, fixed rate bonds or unsecured notes will in no case exceed

[8] See "Lehman Brothers File for Bankruptcy as Credit Crisis Bites" by James Quinn, The Telegraph, Sept. 15, 2008, describes credit facility agent concentration risks.

200 basis points (bps) maximum annual spread over referent US Treasuries (UST) with maximum underwriter commission of 45 bps.

Credit Facility Features

Idaho Power requests a package of credit facility features which Staff believes represent best practices that reduce risk for ratepayers and the Company, while maximizing flexibility for Idaho Power at little or no incremental cost for said flexibility. The refreshed credit facility will be used primarily to back up or reinforce and enhance the credit ratings for Idaho Power's commercial paper issuances and other Borrowing Activity. However, the credit facility will also support borrowings to the initial $300 million limit, expandable under an accordion feature to $450 million.

Staff Exception: Should it happen that expansion to $500 million would be cheaper than expansion to $450 million, then in that unique case expansion to $500 million would be authorized. In that instance, Idaho Power will document the cost differential for review in its next subsequent general rate case before the Commission.

The new credit facility would have a life of five years with two one-year extension options. The option to extend in this case through December 2026 allows Idaho Power to assure rating agencies that it has adequate liquidity, even if at the end of the initial five years, market conditions are unfavorable for immediate credit facility replacement. The result is lower and more controlled costs for the Company and ratepayers. Similarly refreshing the credit facility now when markets are favorable is reflective of best practices. Replacement cost for a credit facility in a market downturn, which Staff expects in the next two years (based on financial news centering on slowdown in business investment and trade disagreements), would be more expensive with less certainty of outcomes.

Idaho Power may also make arrangements for uncommitted credit facilities under which unsecured lines of credit would be offered to the Company on an "as available" basis at negotiated interest rates. Idaho Power will stand ready to demonstrate that the all-in cost of this financing approach where applicable was cost effective against usual alternatives considered.

Flexibility with LIBOR Replacement

Floating rate borrowings historically have been based on LIBOR. Scandal led to the search for a phase-out and replacement of LIBOR. A leading contender, the Secured Overnight Financing Rate or SOFR, is averaged from about $750 billion of short-term loans made every business day called repurchase agreements or "Repo" trades backed by UST as collateral. SOFR was supposed to be less fraud-prone and more robust than LIBOR, because SOFR is based on actual market trades. LIBOR's method of estimates by investment bank staff proved susceptible to manipulation.

However, the U.S. Federal Reserve recently had to pump many billions of dollars into support for the Repo market to bolster liquidity and the roughly 2.25 percent rate surged as high as 10 percent in September.[9] This was glossed over by averaging many normal days with abnormal price spikes. But persons looking for an alternative to LIBOR are no longer so sure the SOFR is the best replacement.

Staff recommends the Commission allow flexibility for Idaho Power to use the most commonly relied on referent LIBOR replacement or alternative. The Company will stand ready in the future to explain its use of referent rates and be prepared to discuss alternatives that it analyzed and found less appropriate than the benchmark rates Idaho Power relied upon.

Up to Three Year Maturities

Staff recommend that the Commission authorize the primary difference in this refreshed authority – up to three year maturities in Borrowings – from the past two Commission Authorizations of this program.

“Riding the Yield Curve” refers to a trading strategy that is based on the UST yield curve and spreads there over. When it is more profitable for the investor to hold shorter term borrowings repeatedly to maturity than to hold a longer aggregate maturity security, the investor or investment bank may capture value that can be denied a utility by the term structure of the authorization permitting the utility’s borrowings.

One may think of this like shopping at a large chain grocery store that prices each stock keeping unit (SKU) separately. Sometimes based on its pricing policy, the store offers shoppers the opportunity to buy multiple smaller containers at a better price from the shopper’s perspective than a single larger container. Similarly, Idaho Power under the current authorization form could be required to “package” securities such that the Company and its ratepayers received less money issuing three one-year securities than one three-year security.

As investors seek safe U.S. dollar denominated utility securities amid global uncertainties, ratepayers are better off if Idaho Power can assess market conditions and package its borrowings to optimize cash flows to the Company. Again, this would be like a national chain grocery store having the flexibility to price its goods so that buying the big container generates more money for the store while still presenting a logical set of attractive different-sized product offering to shoppers.

Use of Proceeds as Restricted by ORS 757.415

The Company states that it may use proceeds for any or all of the following:

1. Construction, facility improvement, and maintenance programs;

[9] See “Repo-Rate Swings Threaten Liquidity in Bond Market” by Daniel Kruger in the October 8, 2019, Wall Street Journal (WSJ).

2. Retirement or exchange of outstanding stock, bond, note or other debt issuances;
3. Reimbursement of the Company treasury for funds previously expended; and
4. Other purposes, as may be permitted by law.

The proposed Credit Facility and Borrowing activity would support usual and continuing utility purposes as described above, which is consistent with statutory requirements.[10]

The Company may draw down on the requested credit facility directly. However, the flexible capability to draw-down funds reduces the likelihood that Idaho Power will need to do so, better controlling costs for both the Company and ratepayers.

Conclusion

Reauthorization of Idaho Power's borrowings and renewal of the Company's Credit Facility as described herein will reduce cost for Idaho Power and ratepayers due to a smaller starting facility size with flexibility to expand as described herein. Other cost controls are in place and best practices are followed. The Company is provided significant flexibility with this authorization and must therefore stand ready to explain and justify the specific costs incurred and the methods and benchmarks relied on.

Staff's review finds the program is working as intended to provide low cost borrowings and liquidity to the Company and its ratepayers. Extending the maximum maturity of borrowings to three years will help ensure that where market prices allow multiple effective offerings of borrowings, Idaho Power has the opportunity to structure this financing to best advantage of the Company and its ratepayers. Current global uncertainties also make borrowings that would be stable through an economic downturn more attractive to investors seeking safe haven investments. Authorizing the longer maturities poses little incremental risk, but offers the potential for better outcomes for the Company and ratepayers. Idaho Power has reviewed and agrees with this memo, including Staff's proposed conditions and reporting requirements.

The Company has made applications for like authorization with the Idaho Public Utilities Commission and with the Wyoming Public Service Commission. No Federal Energy Regulatory Commission (FERC) authorization is required.

[10] The Company's stated intended uses mirror those allowable under ORS 757.415(1).

PROPOSED COMMISSION MOTION:

Authorize Idaho Power to make borrowings with maturity of three years or less, with aggregate simultaneous principal amount of up to $450 million, and to refresh the Company's supporting credit facility, both subject to the nine Conditions and reporting requirements set forth in Staff's recommendation.

Idaho Power requests a signed Commission Order in hand at Idaho Power by November 27, 2019, to allow for the aggregation of state commission authorizations and timely execution of the replacement Credit Facility.

Attachments:
Attachment A contains cost controls referenced herein.

Idaho Power – UF 4314

Attachment A

Maximum Credit Facility Fees

Credit Facility Fees	Low Market	High Market	Expected	Maximum Authorized
Arrangement Fee Paid to Lead Agents	0.10%	0.20%	0.20%	**0.25%**
Up-Front Agent Fees Paid to All Agents	0.10%	0.15%	0.15%	**0.25%**
Annual Commitment Fees Paid to All Agents	0.15%	0.25%	0.175%	**0.25%**
Annual Administrative Fees Paid to Lead Agents	$15,000	$30,000	$25,000	**$75,000**
Applicant Legal Fees	$30,000	$75,000	$50,000	**$75,000**
Agent Legal Fees	$30,000	$75,000	$50,000	**$75,000**
Miscellaneous Expenses	$15,000	$25,000	$20,000	**$75,000**
*Principal Supported (Millions)	$300	$450	$300	**$500**
Aggregate Fees and Charges	$1,140,000	$2,905,000	$1,720,000	**$4,050,000**

Note 1: Credit Facility and Credit Agreement are interchangeable terms herein.

Note 2: Fee percentages are applied to the principal amount in effect, starting at $300,000,000 and expandable to $450,000,000. This flexibility to expand the Credit Facility may be referred to as an accordion feature.

Note 3: In addition, one- to three-year fixed rate bonds or unsecured notes will in no case exceed 200 basis points (bps) maximum annual spread over referent US Treasuries (UST) with maximum underwriter commission of 45 bps.

Exception: When aggregate market fees applied to a credit facility able to support $500 million aggregate principal outstanding are less than for a like $450 million credit facility, $500 million is authorized, subject to controls herein.