

**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON**

UM 1147

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

**DISPOSITION: PETITION FOR EXCEPTION PARTIALLY
GRANTED**

In Order No. 08-263, entered on May 22, 2008, the Public Utility Commission of Oregon (Commission) established a specific interest rate, the Blended Treasury Rate plus 100 basis points, with guidelines for application to deferred accounts during amortization. In that Order, the Commission indicated that exceptions to the application of this interest rate to amortized deferred account balances could be made if warranted by certain circumstances and evidence. The Commission invited petitions for exceptions, as appropriate. On July 21, 2008, Idaho Power Company (Idaho Power or the Company) filed a petition for an exception to the application of the new interest rate to all of Idaho Power’s existing amortized deferral balances.

Idaho Power’s Petition for Exception

Idaho Power asserts, again, that the Company’s existing deferral balances in amortization in Oregon are unique among all other amortized deferred accounts. Idaho Power explains that the Company’s reliance on hydro generation subjects its power supply to asymmetric variability, thereby causing Idaho Power to incur excess power expenses that may be recovered only by deferral. Idaho Power indicates that the Commission has authorized deferral of the Company’s excess power costs incurred during 2001 and 2005 to 2007, and indicates that the Company has filed for permission to defer excess power expenses for 2007 to 2008.¹ Due to the Company’s relatively small customer base (18,000) and normalized revenue in Oregon (27.4 million dollars), and the amortization cap in ORS 757.259, Idaho Power must recover amortized deferred expenses over a long period of time. For example, Idaho Power indicates that excess power costs of more than four million dollars deferred in 2001 will not be fully amortized until 2009. Idaho Power further states:

¹ Idaho Power’s Petition for Exception, p. 4, citing Order Nos. 01-307, 07-119, 07-555 and referring to Docket No. UM 1313.

Once the 2001 deferral is fully amortized in 2009, Idaho Power's annual amortization amount, currently at 10 percent of the previous year's revenue pursuant to ORS 757.259(10), will revert to 6 percent of the previous year's revenue pursuant to ORS 757.259(8). With an unamortized balance of \$2.4 million for the 2006 deferral and an approximate balance of \$6.7 million of excess net power supply costs for the 2007 deferral, it is very likely that Idaho Power's deferred accounts will not be fully amortized until the year 2017.²

Idaho Power argues that it is inappropriate to apply a short-term interest rate, such as the rate adopted in Order No. 08-263 for all amortized deferral accounts, to the Company's existing amortized deferral accounts. Idaho Power asserts that the policy reasons espoused in Order No. 08-263, and in preceding orders, for applying a short-term rate to amortized deferred accounts do not pertain to the Company's existing amortized deferrals. As the Company's existing amortized deferrals are not short-term, the interest rate applied to them should not be short-term, Idaho Power argues. Instead, Idaho Power asks the Commission to make an exception and continue to apply the Company's authorized rate of return (AROR) to its existing amortized deferral accounts.

Staff corroborates Idaho Power's account of the Company's existing deferrals. Staff agrees that the extended length of amortization for Idaho Power's amortized deferrals creates risks different from the risks associated with shorter amortization. However, Staff states:

[T]hose different risks related to the extended length of Idaho Power's amortization of excess net variable power costs only apply to the portion of the amortized deferred accounts that are over three years. Therefore, if the Commission grants Idaho Power's Petition, it should apply the Modified Blended Treasury Rate to the first three years of the amortization of excess net variable power costs and only apply Idaho Power's authorized rate of return approved in Docket UE 167 to its remaining deferral balances in amortization.

In a footnote, Staff adds: "[i]f the Commission agrees that the Modified Blended Treasury Rate should be applied to the first three years of amortized deferred accounts, it should direct Idaho Power to work with Staff on how the three year balance should be calculated (e.g., should the Modified Blended Treasury Rate be applied to a three year rolling average of the amortized deferred accounts).

² Id. at 6 (quote's internal citations omitted).

Although Idaho Power appreciates Staff's general support for the Company's Petition for Exception, Idaho Power indicates that Staff's condition should be rejected as it is inconsistent with the Commission's reasons for adopting an interest rate different than a utility's AROR on amortized deferred accounts. Idaho Power observes that the Commission envisioned utilities separately financing amortized deferred accounts for the period of time of amortization, with the understanding that most amortization periods would be three years or less.

Discussion

Idaho Power's Petition for Exception provides us with sufficient information to conclude that the Modified Blended Treasury Rate we adopted in Order No. 08-263 is inconsistent with the nature of the Company's existing amortized deferred accounts. The Modified Blended Treasury Rate is intended to reflect the short-term, fixed nature of most amortized deferrals. While Idaho Power's existing amortized deferred accounts are fixed, they are not short-term in nature. Consequently, we agree an exception should be made, and that the Modified Blended Treasury Rate should not be applied to Idaho Power's existing amortized deferred accounts.

It is our intent, as Idaho Power observes, that a utility be able to separately finance amortized deferred accounts at a rate commensurate with the interest rate we approve. Due to the concerns raised by Idaho Power regarding Staff's proposal, however, we do not adopt, at this time, Staff's recommendation to apply the Modified Blended Treasury Rate to the first three years of the amortization of excess net variable power costs. We also find, however, that the risk of recovery associated with Idaho Power's existing amortized deferred accounts is still less than reflected by the Company's AROR. Consequently, we are not convinced that the Company's AROR should continue to be applied to the Company's existing amortized deferred accounts.

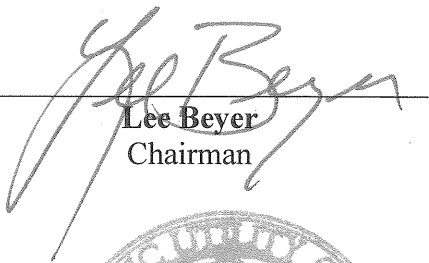
Instead, we direct representatives from Idaho Power and Staff to work together to adopt an interest rate that suits the nature of Idaho Power's existing amortized deferred accounts. Should Idaho Power and Staff reach agreement on a rate, we ask Staff and Idaho Power to make a joint filing that recommends and supports a rate. If Idaho Power and Staff do not reach agreement on a rate by the last day of this year, however, we ask each to make a separate filing by January 9, 2009. In the interim, Idaho Power's AROR shall continue to be applied to Idaho Power's existing amortized deferred accounts.

ORDER

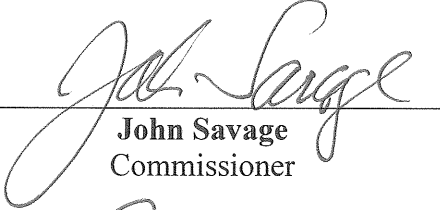
IT IS ORDERED that the Idaho Power Company and Staff of the Public Utility Commission of Oregon shall work together to adopt an appropriate interest rate for the existing amortized deferred accounts of the Idaho Power Company. In the event that agreement is reached on a rate by the last day of the year 2008, there shall be a joint filing that recommends and supports a rate. If no agreement is reached by this date, separate filings should be made by January 9, 2009. In the interim, Idaho Power's authorized rate of return shall continue to be applied to Idaho Power's existing amortized deferred accounts.

SEP 23 2008

Made, entered, and effective _____.



Lee Beyer
Chairman



John Savage
Commissioner



Ray Baum
Commissioner



A party may request rehearing or reconsideration of this order pursuant to ORS 756.561. A request for rehearing or reconsideration must be filed with the Commission within 60 days of the date of service of this order. The request must comply with the requirements in OAR 860-014-0095. A copy of any such request must also be served on each party to the proceeding as provided by OAR 860-013-0070(2). A party may appeal this order by filing a petition for review with the Court of Appeals in compliance with ORS 183.480-183.484.