

**Public Utility Commission of Oregon
Interoffice Correspondence**

DATE: January 13, 2025

TO: Caroline Moore, Scott Gibbens, and Matt Muldoon

FROM: David Abraham and Itayi Chipanera

DOCKETS: UM 1147 and UG 221

SUBJECT: Calculation and Verification of the Following Rates for 2025:
Modified Blended Treasury (MBT), Modified Blended Exception (MBE),
and Prudence-Reviewed Unamortized *Environmental* Remediation
Expense (PURE).

In Order Nos. 08-263, 09-065, and 09-265, in Docket No. UM 1147, and Order No. 12-437, in Docket No. UG 221, the Public Utility Commission of Oregon (Commission) respectively authorized the annual calculation of the MBT, MBE, and PURE rates. The MBT rate is based on an average of 1-, 3-, and 5-year treasury yields; the MBE is based on an average of Moody bond yields; and the PURE rate is based on an average 5-year yield on treasury notes, as shown in Attachment A.

In accordance with Commission guidance in these orders, Staff extracted data on selected yields on US Treasury and Moody's Seasoned Corporate BAA-Rated Bond Yields, an instrument based on bonds with maturities 20 years and above, from the Federal Reserve Economic Data of the Federal Reserve Bank of St. Louis (FRED). Staff then calculated each rate shown in Table 1 below, conforming to above Orders and past Commission practices.

Table 1

2018	2019	2020	2021	2022	2023	2024	2025	
2.92%	3.74%	2.63%	1.24%	1.82%	5.13%	5.40%	5.16%	MBT
3.25%	4.11%	2.96%	1.74%	2.20%	5.23%	5.46%	5.29%	MBE
3.14%	3.75%	2.68%	1.40%	2.24%	4.70%	5.01%	5.13%	PURE

Please note that Supplemental Order No. 12-437 in Docket No. UG 221 authorizes the PURE rate. The PURE rate is obtained by adding 100 basis points to the average of the five-year Treasury rates determined within the MBT rate calculations for the applicable year.

Attachment A shows the calculations performed are consistent with historical reporting, while Attachment B shows that the upwards trend for these rates has leveled off as the steep rate hikes implemented by the Federal Open Market Committee (FOMC) in 2022 were replaced by rate increases totaling just one percent in the first seven months of 2023. The FOMC's monetary policy shifted significantly late in 2024 as the third consecutive rate reduction was announced after the December meeting. The shift in policy represents the FOMC's goal of bringing down surging inflation following the COVID-19 pandemic, federal stimulus, and a tight labor market, without harming the job market or kick-starting a recession. The FOMC's recent rate cut does not mean a return to the ultra-low rates seen during the pandemic era, as the FOMC indicated that 2025 rate cut plans may be scaling back. The FOMC now projects just two rate cuts in

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2025 compared to earlier projections of four rate cuts. Staff notes that the outcome of the fall 2024 U.S. Presidential election increased uncertainty around immigration, tariffs, and other factors impacting the direction of UST yields.

Attachment A

UM 1147

Line		Constant Maturity Nominal Treasury Notes (UST)			Moody's Baa Industrial
		1-Year	3-Year	5-Year	Bonds
1	Annual Yield as of: Thursday, December 5, 2024	4.23%	4.10%	4.07%	5.57%
2	Annual Yield as of: Thursday, December 12, 2024	4.22%	4.14%	4.18%	5.76%
3		4.23%	4.12%	4.13%	5.67%
4	Average of 1-, 3-, and 5-year UST Yields	4.16%			
5	100 Basis Point Adder	1.00%			
6	MBT Rate	5.16%		Authorizing Order Nos. 08-263 and 09-065	
7	Average Annual Yield of Moody's Baa Bonds	5.67%		Authorizing Order No. 09-265	
8	MBE Rate	5.29%			
9	Average Annual Yield of 5-Year Treasury Notes	4.13%			
10	100 Basis Point Adder	1.00%		Authorizing Order No. 12-437	
11	PURE Rate	5.13%			
Note: All rates and intermediate results are rounded to the nearest basis point.					
Sources: Data is accessed from the Federal Reserve Economic Data of St Louis https://fred.stlouisfed.org/					

Maturity (years)	Average of 3 T's		
	3	10	30
MBT Rate and Moody's Blended Baa Rate with Interpolated 10 & 30 Year Rates	5.16%	5.29%	5.67%

Attachment B

