

**PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: July 23, 2002**

REGULAR CONSENT EFFECTIVE DATE _____

DATE: July 17, 2002

TO: John Savage through Marc Hellman and Bryan Conway

FROM: Thomas D. Morgan

SUBJECT: PORTLAND GENERAL ELECTRIC (PGE): (Docket No. UF 4190)
Application for Authority to Issue up to \$300 Million of First Mortgage Bonds.

STAFF RECOMMENDATION:

I recommend that PGE's application be approved subject to the following conditions:

1. Debt proceeds under this authority will be used only for lawful purposes as permitted in ORS 757.415 including refinancing long term and short term debt.
2. Total financing capacity included in this order shall be coupled with Order 02-292, which authorized \$250 Million of First Mortgage Bonds (FMBs) in a private placement, for an aggregate borrowing capacity authorized by this docket (UF 4190) of \$350 Million, less any amounts issued under the authority of the order referenced above.
 - a. In no case shall the existing authorities provide for issuance of more than \$350 Million in debt capacity. If any changes in the Company's capital structure (e.g. common equity account balance) might cause the common equity capitalization ratio to fall below 48 percent with the issuance of any new or refinanced Debt, the Company shall limit its borrowing to remain above the 48 percent limit.
 - b. The limit excludes:
 1. The borrowing capacity allowed by Order 02-444 (UF 4182), providing up to \$100 Million from Enron Corp.
 2. The FMBs, that have been pledged as backing (collateral) for the Company's revolving line of credit.

- c. The remaining \$100 Million of \$250 Million borrowing capacity authorized under Order 01-1048 (UF 4179) is terminated.
 - d. No other outstanding orders from the Commission provide authority for the issuance of debt securities.
3. The Company will demonstrate that the rate(s) it achieves on new Debt is consistent with market rates or otherwise demonstrate that the rate(s) it achieves is competitive. The demonstrations should be filed as soon as possible after each issuance and sale.
4. The interest rate spreads should be limited as provided in the attachment included with this Memo.
5. PGE should demonstrate that any early refunding, call provisions or sinking fund requirement placed on the issuance is cost-effective. The demonstration may compare the all-in costs for debt securities of similar maturities with and without such provisions.
6. The Company should file the usual Report of Securities Issued and Disposition of Net Proceeds promptly after each sale.
 - a. Such reporting should include the common equity capitalization ratio as of the date of issuance, along with supporting documentation, i.e., a balance sheet capitalization statement.
 - b. On a quarterly basis, the Company shall provide a statement indicating the aggregate total issuances under all authority specified in Condition 2 along with remaining capacity under each authorization. This quarterly report will also include the equity capitalization ratio details included in (a) above.
7. The authorization should remain in effect as long as the Company maintains senior secured debt ratings of at least BBB-/Baa3 (i.e., "investment-grade") from Standard & Poor's and Moody's Investors' Service, Inc., respectively. Any remaining capacity to issue debt under this authority is rescinded upon downgrading below those levels.
8. For ratemaking purposes, the Commission will reserve judgment on the reasonableness of the Company's capital costs, capital structure and the commissions and expenses incurred for security issuances. In its next rate proceeding, the Company will be required to show that its capital costs and structure are just and reasonable.

DISCUSSION:

On June 26, 2002, PGE filed an application, under ORS 757.410 and ORS 757.415, to seek authority to issue up to \$300 Million in First Mortgage Bonds including Medium Term Notes (FMBs, Bonds or Debt) for uses consistent with ORS 757.415 (1) [Sections a through e].¹

PGE seeks authority to issue Debt either privately or publicly at either fixed or floating interest rates². The Company discusses its need for total issuances having a total face value of no more than \$350 Million.

On July 11, 2002, PUC Staff met with representatives of the Company to discuss its currently established 2002 Financing Plan. Staff sought details regarding the capital-spending plan through 2003. According to the Company's representations, authority granted under this docket would be available for appropriate uses. The company plans over \$350 million of capital expenditures through 2003.

A review of the financing plan provided by the Company indicates that the Company should have sufficient liquidity through 2003, once the available capacity has been placed.

PGE requested authorization for \$250 Million in privately placed FMBs in Docket UF 4187. Order 02-292 was issued to provide the requested authority. To date, the Company has not been able to issue under that Order. The current application is designed to offer more flexible terms while not discounting the potential for finalizing the prior transaction.

On June 4, 1997, the Commission entered Order UM 814 requiring PGE to maintain a common equity portion of its capital structure at 48 percent or higher unless the Commission approves a different level. Assuming the issuance of long-term debt anticipated by the Company, Staff believes that PGE will approach the 48 percent equity capitalization limit.

More specifically, assuming the full issuance of the \$350 million granted by the approval of this application, coupled with the anticipated non-cash dividend payment or equity

¹ Purposes allowed by law include the acquisition of utility property, the construction, extension or improvement of utility facilities, the improvement or maintenance of service, the discharge or lawful refunding of obligations that were incurred for utility purposes (such as higher cost debt or preferred stock) or the reimbursement of the Company's treasury for funds used for the foregoing purposes, as permitted under ORS 757.415(1).

² An attachment is provided that includes tables that illustrate the interest rate spreads.

transfer/write-off for an account balance due to PGE from PGH II, the equity capitalization ratio will be roughly 51 percent, providing roughly \$175 Million of additional borrowing capacity, assuming there are no additional write-offs or write-downs or losses that would affect PGE's equity balances.

The Company indicates that the fees for underwriters, banks or agents are expected to be usual and customary and not greater than one percent of the aggregate principal amount of the Bonds, which equates to no more than \$3,000,000.

Other fees are expected to total less than \$400,000. The terms, specific banks, agents or underwriters would be selected at the time of issuance. The Company identifies ABN AMRO Incorporated as a potential underwriter/agent; has engaged it and is undertaking due diligence.

The rates and issuance expenses are within a reasonable range. The interest rate spreads generally appear to be somewhat high, though given the financial pressures that the Company has faced since the Enron bankruptcy filing, such would be anticipated and are in line with recent Commission financing decisions.

The currently anticipated financing is for FMB's with a term of 10 years, and a sinking fund provision³ that would make the average term roughly seven years. Future issuances may not include a sinking fund provision.

PROPOSED COMMISSION MOTION:

PGE's amended application, UF 4179, be approved subject to Staff's proposed conditions and reporting requirements.

UF 4190.doc

³ A sinking fund provision requires the issuer to redeem or set aside funds for a portion of the debt issued based on a mandatory schedule, prior to the final maturity, usually at par value. The provisions of the sinking fund enhance the safety of the investment and are reflected in a lower face interest rate.

Attachment - Interest Rate on Bonds (Secured Obligations)

Floating Rate Bonds

The proposed maximum Spread over LIBOR is listed below:

Greater Than or Equal To	Less Than	Maximum Spread Over Benchmark LIBOR Yield⁴
3 years	4 years	+ 425 basis points ⁵
5 years	6 years	+ 450 basis points
7years	9 years	+ 475 basis points
10 years	11 years	+ 500 basis points

Fixed Rate Bonds

The interest rate on the Bonds will be determined at the time it is issued. The proposed maximum Spread over applicable treasury for various maturities is listed below. The Bonds may have a feature that allows it to be redeemed prior to maturity at specified prices.

Greater Than or Equal To	Less Than	Maximum Spread Over Benchmark Treasury Yield⁶
3 years	4 years	+ 425 basis points
5 years	6 years	+ 450 basis points
7years	9 years	+ 475 basis points
10 years	11 years	+ 500 basis points

⁴ LIBOR is the acronym for London Interbank Offered Rate and is the interest rate offered among a specific group of London banks for Eurodollar deposits of a stated maturity. LIBOR is used as a base index for setting rates of some adjustable rate financial instruments.

⁵ Basis point is defined as one-hundredth of a percentage point; i.e. 100 points is 1 percent.

⁶ The Benchmark Treasury Yield, with respect to any MTN maturity range, means the yield to maturity of that issue of direct obligations of the United States which, out of all actively traded issues of such obligations with a remaining term to maturity within such MTN maturity range, is generally considered by dealers in such obligations to be the standard for such obligations whether Federal, state or corporate, with approximately the same remaining terms to maturity. With respect to the issuance of any MTN, the Benchmark Treasury Yield shall be determined as of the time the commitment to purchase such MTN is received by the Company and the Agents.