

**PUBLIC UTILITY COMMISSION OF OREGON  
STAFF REPORT  
PUBLIC MEETING DATE: May 13, 2003**

REGULAR  CONSENT  EFFECTIVE DATE \_\_\_\_\_

**DATE:** May 8, 2003

**TO:** John Savage through Marc Hellman and Bryan Conway

**FROM:** Thomas D. Morgan

**SUBJECT:** PORTLAND GENERAL ELECTRIC: (UF 4197) Application for Authority to Issue First Mortgage Bonds to Secure a Revolving Line of Credit.

**STAFF RECOMMENDATION:**

The Commission should approve Portland General Electric's (PGE or Company) application to secure its 364-day Revolving Line of Credit (LOC or Revolver) with up to \$200 million of First Mortgage Bonds (FMBs or Bonds) subject to the conditions and reporting requirements discussed below:

1. The authorization to issue Bonds shall 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 outstanding Bonds issued under this authority will remain in effect until expiration of the underlying credit facility as described in this Memo even if the senior secured debt ratings are reduced below investment grade after their issuance.
2. PGE shall file the usual Report of Securities Issued and Disposition of Net Proceeds statements as soon as possible after any issuance.
3. When determining the equity capitalization ratio in conjunction with any dividend payments to Enron or any successor, PGE shall include the FMBs that have been pledged as security for any Revolvers in the calculation of the ratio pursuant to Condition 6 of the merger stipulation (UM 814).
4. PGE shall redeem and remove the underlying FMBs at its earliest opportunity and ability; when cost effective to do so; and shall provide the Commission such information immediately upon its occurrence.

**DISCUSSION:**

On May 29, 2002, PGE filed an application with the Commission to approve the creation of a secured obligation under two Revolvers. The Commission approved the application (Order 02-384) and FMBs were issued under the Company's existing Mortgage and Deed of Trust and issued as such collateral.

The authority provided pursuant to that order allowed the Company to issue additional securities with the rights consistent with senior secured long-term debt. In the event of default, the banks providing the Revolver credit facility would be afforded rights equivalent to secured creditors of the Company.

On April 21, 2003, PGE filed with the Commission to approve a similar application to place First Mortgage Bonds as security underlying a new LOC. The current application seeks to replace the authority previously granted and will reduce the collateral already in place from \$222 million to the requested \$200 million. Upon entering into the new LOC and issuing the new FMBs, the two current LOCs, and the FMBs securing them, would be canceled.

PGE represents that the requirement for the FMBs as security for the Revolver is due in large part to economic pressures that face the Company resulting from Enron's bankruptcy filing. It is not clear when the pressures will be reduced and when the Company can cost-effectively remove the underlying security offered by the FMBs from the LOC. Rather than requiring annual renewals for the security, I recommend an additional condition (Condition 1) that would provide on-going authority as long as the Company and the capital markets require the additional security. Annual renewals would not meaningfully add to the regulatory oversight by the Commission.

The interest rates on the Bonds will be adjusted, as necessary, to equal the interest rate under the Credit Agreement for the Revolver, which may range from 75 basis points<sup>1</sup> to 350 basis points over LIBOR<sup>2</sup>. Based on its current credit rating, the anticipated total spread is 150 basis points, based on the margin over LIBOR and the commitment fee.

The expenses for issuance, underwriting and insurance total roughly \$75,000, based on the application provided. Such costs appear reasonable.

Additionally, on June 4, 1997, the Commission entered Order UM 814 requiring PGE to maintain a common equity portion of its permanent capital structure at 48 percent or

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<sup>1</sup> A basis point is one-hundredth (1/100) of a percentage point, i.e., 100 basis points is 1.00 percent.

<sup>2</sup> 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.

higher unless the Commission approves a different level. Further, Condition 6 of the Stipulation in UM 814 requires that "PGE shall not make any distribution to Enron that would cause PGE's equity capital to fall below 48 percent of the total PGE capital without Commission approval. The Commission Staff, PGE and Enron may re-examine this minimum common equity percentage as financial conditions change, and may request that it be adjusted."

Staff believes that the calculation of the equity capitalization ratio should include any amount explicitly pledged to support the Revolver when PGE considers any dividends available for distribution to its shareholder(s), regardless of any outstanding balance on the Revolver. Staff does not normally include such outstanding balances when determining the equity capitalization ratio because of their short-term, non-permanent nature. However, if the revolving short-term loan is backed up by long-term FMBs, the total Revolver capacity, not the outstanding balance, should be included in the calculation of the 48 percent equity ratio. This is because if the Company defaults on the short-term unsecured revolver, then the lending syndicate or bank owns FMBs that are secured by the underlying assets of the Company.

While a secured credit facility provided in this docket is authorized or in effect, the Company should limit any such dividend payments on common equity pursuant to this parameter. Staff's recommended Condition 3 specifically addresses this issue.

The Company represents that the underlying security provided by the FMBs for the Revolver(s) would provide the Company with needed liquidity. The approval of this application with the proposed conditions should provide PGE access to working capital.

Based on Staff's review, approval of PGE's application is recommended. Commission approval will provide continued access to the capital markets and is in the public interest.

**PROPOSED COMMISSION MOTION:**

Portland General Electric's application to secure its Line of Credit with First Mortgage Bonds is approved, subject to Staff's conditions.