

**PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: July 1, 2003**

REGULAR	X	CONSENT	EFFECTIVE DATE	
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DATE: June 24, 2003

TO: John Savage through Marc Hellman and Bryan Conway

FROM: Ming Peng

SUBJECT: PORTLAND GENERAL ELECTRIC: (Docket No. UF 4199) Application for authority to issue and sell not more than \$200 million of First Mortgage Bonds.

STAFF RECOMMENDATION:

I recommend the Commission approve Portland General Electric 's (PGE) application to issue not more than \$200 million of First Mortgage Bonds (FMBs), subject to four reporting requirements: (1) PGE should demonstrate that it achieves a competitive rate on any publicly offered FMB, by providing at least one comparable MTN posting (MTN quotes); (2) PGE should demonstrate that it achieves a competitive rate on any MTN by reporting two comparable MTN postings pursuant to any issuance and sale; (3) PGE should demonstrate that it achieves a competitive rate on any privately placed securities; and (4) PGE should demonstrate that any early refundings are cost-effective.

DISCUSSION:

On June 6, 2003, PGE filed an application pursuant to Oregon Revised Statutes (ORS) 757.410 & 757.415, and Oregon Administrative Rule 860-27-0030 for authority to issue and sell not more than \$200 million of first mortgage bonds (FMBs).

FMBs

The FMBs will have maturities ranging from five to thirty years, and will generally be sold through an underwriting process or through agents under a Medium Term Notes (MTN) program. The interest rates will be fixed. The all-in interest rate¹ will not exceed US Treasury rates plus a spread². The proposed spreads depend on a FMB's maturity and are attached as Table 1.

MTNs

¹ The all-in interest rate includes the coupon and the appropriate fees or commissions, but it does not include other expenses of issue.

² PGE's proposed all-in rate spreads in Table 1 appear just and reasonable, but they are higher than the all-in spreads suggested by U.S. Treasury and LIBOR Rates (Lehman Brothers, May 13, 2003) and might be reviewed by Staff in any future filing.

The MTNs will be secured and have maturities ranging from five years to thirty years. The all-in interest rates will be determined at the time of issuance and will be fixed. The fixed interest rate will not exceed US Treasury rates plus a spread. The proposed spreads depend on an MTN's maturity and are attached as Table 1.

Use of Proceeds

PGE will use the proceeds for the following purposes: 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 which were incurred for utility purposes permitted under ORS 757.415 (l)(a), (l)(b), (l)(c), (l)(d), or (l)(e) or the reimbursement of the Company treasury for funds used for the foregoing purposes, except the maintenance of service and replacements. To the extent proceeds are used to discharge or lawfully refund obligations, they or their precedents were originally incurred for purposes described in ORS 757.415 (l)(a), (l)(b) or (l)(e). To the extent proceeds are used to reimburse the treasury for funds used to discharge or lawfully refund obligations, such obligations were incurred for purposes described in ORS 757.415 (l)(a), (l)(b) or (l)(e), or for the purposes described in ORS 757.415 (l)(a), (l)(b) or (l)(e) directly.

Expenses

PGE expects to issue the Bonds from time to time in amounts not to exceed \$200 million in aggregate. The maturities of the various series are expected to be from 5 to 30 years. PGE projects the fee paid to the underwriters/agents as compensation will be the usual and customary amount prevailing for such sales and will not exceed 1% of the aggregate principal amount of the Bonds. Total issuance cost will be about 1.13% of the aggregate principal amount of the Bonds. I recommend a reporting requirement to help ensure that underwritten FMBs are sold at market rates.

PGE's application also indicates that the Bonds may be issued as public offerings or on a private placement basis. I recommend a reporting requirement to help ensure that any private placements are sold at market interest rates.

I am also concerned that any early refunding be cost-effective. This concern is addressed in reporting requirement No. (4). Additionally, PGE represents that the Unamortized Loss on Reacquired Debt (FERC 189) consists of the remaining balance of issuance expenses of the refunded debt, plus any call premiums, and PGE plans to amortize the Amortization of Loss on Reacquired Debt (FERC 428.1) over the life of the new bonds. Any demonstrations under reporting requirement No. 4 will include these costs.

PROPOSED COMMISSION MOTION:

As filed on June 6, 2003, approve Portland General Electric's application, UF 4199.

Table 1
PGE Summary for FMB/MTN All-in Fixed-Rate Spreads over US Treasury
(Assumes Senior Secured Debt Ratings of Baa2/BBB+)

Greater Than or Equal To	Less Than	Maximum Spread Over Benchmark Treasury Yield ³
5 years	9 years	+ 200 basis points ⁴
10 years	14 years	+220 basis points
15 years	19 years	+240 basis points
20 years	29 years	+260 basis points
30 years or more		+270 basis points

³ The Benchmark Treasury Yield, with respect to any maturity range, means the yield to maturity of that issue of direct obligations of the United States.

⁴ Basis point is defined as one-hundredth of a percentage point; i.e., a 100 basis point equals 1 percent.