

**PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: November 7, 2006**

REGULAR _____ **CONSENT** X **EFFECTIVE DATE** _____ **N/A** _____

DATE: October 31, 2006

TO: Public Utility Commission

FROM: Thomas D. Morgan

THROUGH: Lee Sparling, Marc Hellman, and Bryan Conway

SUBJECT: PORTLAND GENERAL ELECTRIC: (Docket No. UF 4231) Application for authority to issue and sell not more than \$300 million in debt securities.

STAFF RECOMMENDATION:

The Commission should approve Portland General Electric Company's (PGE or Company) application to issue \$300 million in debt securities, subject to the following conditions and reporting requirements:

- 1) The Company shall file the usual Report of Securities Issued and Disposition of Net Proceeds statement as soon as possible after any issuance. Upon each issuance of Securities, the Company shall file documentation with the Commission providing a specific description of the terms and conditions of each issuance of the Securities.
- 2) The Company shall demonstrate that the rate(s) it achieves on new securities is consistent with market rates, or otherwise demonstrate that the rate(s) it achieves is competitive. If the rates are negotiated rather than competitively bid, the Company shall demonstrate that the rates are consistent with those it would have achieved under a competitive bid. The demonstrations should be filed as soon as possible after each issuance and sale, and should include a demonstration that fees for partial issuances are reasonable.
- 3) The Company shall demonstrate that any early refunding or the exercise of any call provision or required sinking fund placed on the issuance is cost-effective.
- 4) The authorization to issue debt under this order remains in force as long as the Company maintains debt ratings of at least BBB-/Baa3 (i.e., "investment-grade")

from Standard & Poor's and Moody's Investors' Service, Inc., respectively on any debt security type it intends to market, on the date the security is initially issued.

- 5) If any agents or underwriters are involved in the sale of the Bonds, the names of such, the initial price to the public, any applicable commissions or discounts, and the net proceeds to the Company shall be filed with the Commission. If the Debt is sold to an agent or agents as principal, the agent name(s), the price paid by the agents, net proceeds, and any applicable commission or discount paid by the Company to the agent(s) shall be included. The Company shall indicate that any fees are reasonable, usual, and customary for such sales.
- 6) For ratemaking purposes, the Commission reserves judgment on the reasonableness of the Company's capitalization structure and all expenses incurred for security issuances. In its next rate proceeding, the Company will be required to show that its capitalization structure and capital costs, including imbedded expenses, are just and reasonable.

DISCUSSION:

On October 24, 2006, PGE filed an application pursuant to Oregon Revised Statutes (ORS) 757.410 & 757.415, and Oregon Administrative Rule (OAR) 860-027-0030 for authority to issue up to \$300 million in debt securities (Debt) in the form of either First Mortgage Bonds (FMBs) or Senior Unsecured Notes (Notes).

The Securities would be issued in one or more transactions, as conditions permit. The Securities would have a maturity of up to 35 years and would either be issued, in the case of Bonds, under the Company's First Mortgage Indenture or, in the case of Notes, as unsecured notes issued under an indenture to be negotiated with the purchasers. The Securities may have a sinking fund provision and may have a feature that allows for early redemption.

The Company expects to initially issue about \$160 million in FMBs in a private placement, with a coupon interest rate that is approximately 6.0 percent.

Secured Bonds:

The Bonds would be issued under the Company's First Mortgage Indenture. The Bonds will be secured equally with all other FMBs of the Company as part of a lien against substantially all of the Company's utility property. The Trustee under the First Mortgage

Indenture is HSBC Bank USA. The Bonds, or any series thereof if there is more than one series, will most likely be without coupons.

The agreement for the Bonds is expected to be entered into prior to the end of 2006, with actual issuance within the following six-month period, coinciding with PGE's financing requirements for 2007 capital expenditures, including the Biglow Canyon Wind Farm Project. The Bonds may have a feature which allows them to be redeemed prior to maturity at specified prices.

Underwriting:

The Company may name as possible managing underwriters/agents, Lehman Brothers, Deutsche Bank, JP Morgan, Wells Fargo, or others. The Securities may be sold on a negotiated or competitive bid basis. The Securities may be sold directly to a limited number of purchasers or to a single purchaser.

Bond Ratings:

The following table reflects the Company's current credit ratings:

	<u>Moody's</u>	<u>Standard & Poor's</u>
First Mortgage Bonds:	Baa1	BBB+
Unsecured Notes:	Baa2	BBB

The Company may apply for a rating on the Securities it intends to issue, if required.

Interest Rates:

The interest rate on the Bonds will be at fixed rates, with a set premium over Treasuries. Typical spreads are about 50 basis points less than the proposed maximum spreads over the applicable Treasury securities for various maturities that are listed in Appendix A, Table 1 for the FMBs and Table 2 for the Notes. The rates will be determined at the time the Bonds are issued, however, they may be priced with a delayed settlement agreement which establishes the rates and terms of the sale up to one year prior to the actual transaction. The Company has represented that such a feature would occur as a component of a private transaction that is currently being negotiated. The schedule of interest rate spreads appears reasonable.

Expenses:

The underwriters/agents will receive as compensation (assuming a public offering) the difference between the price at which they purchase the Securities from the Applicant

and the price at which the Securities are sold by the underwriters/agents to the public. If the Securities are sold on a private basis, the underwriters/agents will receive the usual and customary amount prevailing for such sales and will not exceed 1.00 percent of the aggregate principal amount of the Securities, the final amount to be negotiated by the Company. Based on typical financing transactions of this size and tenor, the total underwriting fees range from 0.6 to 0.8 percent.

However, total fees shall not exceed those represented in Appendix A, Table 3. The Company intends to amortize any applicable expenses over the life of the debt. The fees and expenses appear reasonable.

Use of Proceeds

As described above, PGE will use the proceeds of the issuance under this authority for (a) the acquisition of property, or the construction, completion, extension, or improvement of its facilities, (b) the refunding of its obligations or (c) the reimbursement of money actually expended from income or from any other money in the treasury which were incurred for utility purposes permitted under ORS 757.415 (1).

Prior to finalizing the Staff memo, the proposed Conditions were shared with the Company and the Company is agreeable to them.

PROPOSED COMMISSION MOTION:

Portland General Electric's application, UF 4231, be approved subject to Staff's conditions and reporting requirements.

~~UF 4231 – PGE \$300 Million Debt Securities~~

Table 1 – Bonds - Maximum Spread over Treasury Rates

Greater Than or Equal To	Equal to or Less Than	Maximum Spread Over Benchmark Treasury Yield ¹
3 years	9 years	+ 120 basis points
10 years	14 years	+ 130 basis points
15 years	19 years	+ 140 basis points
20 years	24 years	+ 150 basis points
25 years	35 years	+ 160 basis points

Table 2 – Notes - Maximum Spread over Treasury Rates

Greater Than or Equal To	Equal to or Less Than	Maximum Spread Over Benchmark Treasury Yield ¹
3 years	9 years	+ 135 basis points
10 years	14 years	+ 145 basis points
15 years	19 years	+ 155 basis points
20 years	24 years	+ 165 basis points
25 years	35 years	+ 175 basis points

Table 3 - Issuance Expenses

Item	Debt	
	Amount	Per \$100
1. Face value or principal amount	\$300,000,000	\$100.00
2. Plus premium or less discount		
3. Gross proceeds	\$300,000,000	\$100.00
4. Underwriters' spread or commission (1.00%)	3,000,000	
5. Securities and Exchange Commission registration fee	-	
6. Printing and engraving expenses	30,000	
7. Trustee's charges	30,000	
8. Fees and expenses of independent public accountants	25,000	
9. Rating agency fees	60,000	
10. Blue Sky fees	50,000	
11. Legal fees	80,000	
12. Total deductions	\$3,275,000	1.09
13. Estimated net amount to be realized	\$296,725,000	\$98.91