

**PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: January 8, 2008**

REGULAR CONSENT EFFECTIVE DATE _____ N/A _____

DATE: January 2, 2008

TO: Public Utility Commission

FROM: Steve Storm

THROUGH: Lee Sparling, Marc Hellman, and Bryan Conway

SUBJECT: PACIFICORP: (Docket No. UF 4243) Application for authority to issue and sell or exchange not more than \$2,000,000,000 of debt securities; enter into credit support arrangements; enter into currency swaps; and contribute or sell additional debt to special-purpose entities.

STAFF RECOMMENDATION:

The Commission should approve PacifiCorp's (PacifiCorp or Company) application subject to the following conditions and reporting requirements:

- 1) The total of securities issued under this authority shall not exceed a total of \$2,000,000,000 or, if the Debt is issued at an original issue discount, such greater amount as shall result in an aggregate offering price of not more than \$2,000,000,000 (or its equivalent amount inclusive of any securities issued under this authority in foreign currencies).
- 2) Any remaining financing authority granted under Order No. 07-085 is withdrawn.
- 3) The Company shall demonstrate that it achieves a competitive rate on any publicly offered security and on any privately placed security.
- 4) The interest rates shall be consistent with the parameters specified in the Company's application and in Attachment A.
- 5) The Company shall demonstrate that any early refunding of debt is cost-effective.

- 6) The Company may not issue debt to its parent (MidAmerican Energy Holdings Company¹) or to its affiliates other than Special-Purpose Entities created under this authority (e.g., to Berkshire Hathaway).
- 7) For an issuance of subordinated debt to special-purpose entities (SPEs), the Company shall provide full disclosure of all agreements within 15 days prior to each issuance.
- 8) The authorization is to remain in effect as long as the Company maintains senior secured debt ratings no lower than BBB-/Baa3 (i.e., "investment-grade") from Standard & Poor's and Moody's Investors' Service, Inc., respectively.
- 9) The Company shall file the customary Report of Securities Issued and Disposition of Net Proceeds statements as soon as possible after each issuance and sale. This report is to include the total value, in U.S. Dollars, of the issuance; per unit price(s); total expenses and net proceeds of the issuance; and interest costs and credit ratings.
- 10) The Commission will reserve judgment on the reasonableness for ratemaking purposes of the Company's capital costs, capital structure, and the commissions and expenses incurred for security issuances. The Company will be required in its next rate proceeding to show that its capital costs, including embedded expenses, and capital structure are just and reasonable.

DISCUSSION:

PacifiCorp filed an application February 5, 2007 pursuant to Oregon Revised Statutes (ORS) 757.415, 757.480, and Oregon Administrative Rule (OAR) 860-027-0030 for authority to (1) issue and sell or exchange not more than \$1,500,000,000 of debt, (2) enter into credit support arrangements, (3) enter into currency swaps, and (4) contribute or sell additional debt to special-purpose entities. On March 5, 2007, the Commission issued Order No. 07-085 in UF 4237 granting the Company's request.

PacifiCorp filed an application December 6, 2007, pursuant to ORS 757.405, 757.410(1), 757.415, and OAR 860-027-0030, for authority to (1) issue and sell or exchange, in one or more public offerings or private placements, fixed or floating-rate debt (Debt) in the aggregate principal amount of not more than \$2,000,000,000 or, if the

¹ PacifiCorp is an indirect subsidiary of MidAmerican Energy Holdings Company (MEHC). MEHC is a consolidated subsidiary of Berkshire Hathaway Inc. (Berkshire Hathaway). As of Berkshire Hathaway's 10-Q filing for the quarterly period ending September 30, 2007, Berkshire Hathaway owned 88% of MEHC.

Debt is issued at an original issue discount² (OID), such greater amount as shall result in an aggregate offering price of not more than \$2,000,000,000 (or its equivalent amount in, or based upon, foreign currencies determined at the time of issue), (2) enter into letter of credit arrangements with one or more banks or such other agreements or arrangements as may be necessary or appropriate from time to time, to provide additional credit support for the payment of the principal of, the interest on and the premium of the Debt, (3) enter into one or more currency swaps, provided that, with respect to the Debt contemplated, such Debt is either issued with a cost to maturity not exceeding the spreads over U.S. Treasury yields established by the Commission or is issued with a cost to maturity not exceeding 9.0 percent per annum, and (4) contribute or sell additional Debt to special-purpose entities (SPEs) in an amount based upon the common securities of the SPE and Commission approval of the proposed guarantee and expense payment agreements relating to the preferred securities of the SPE.

The \$2.0 billion limit on debt security issuance does not include the value of any credit support arrangements, such as a letter of credit agreement, the Company enters into under the requested authorization.

The Company represents that \$1.2 billion in debt had been issued under Order No. 07-085 in UF 4237 as of its December 6, 2007 filing. The Company agrees that with approval of the current application the authority to issue any additional debt under UF 4237 is withdrawn.

PacifiCorp requests authority to issue a wide variety of debt securities, potentially including those described below.

First Mortgage Bonds (FMBs)

FMBs have been the traditional source of debt capital for U.S. utilities. FMBs have the first mortgage and senior claim on an asset or group of assets.

The Company anticipates Debt issuances under this authorization will be primarily fixed-rate FMBs, but is requesting authority for a variety of borrowing options in order to provide the flexibility to pursue the most attractive markets at the time of Debt issuance and to produce the most competitive cost for the Company.

² An original issue discount (OID) bond is a debt security issued and sold at a price less than its maturity (or par, or face) value. Zero-coupon bonds, or "zeros," are original issue discount bonds issued and sold at a deep discount from their par (or face) value and accrue interest instead of making periodic interest payments (hence "zero-coupon"). Both the principal and the accumulated interest are paid at maturity.

Medium-Term Notes (MTNs)

Medium-Term Notes are corporate debt instruments that may be continuously offered to investors over a period of time by an agent of the issuer. MTNs may be offered either domestically or through global programs. Investors can typically select from a variety of maturity bands; e.g., 9 months to 1 year, more than 1 year to 18 months, more than 18 months to 2 years, etc., up to 100 years. MTNs can be offered on either a secured or unsecured basis.

Floating-Rate Debt

Floating-rate debt is typically unsecured debt with interest rates that periodically reset, with the reset period ranging from daily to annually. The most common indices used for pricing floating-rate debt are based on the London Interbank Offered Rate (LIBOR),³ commercial paper, or Treasury bill rates.

Eurobonds (Eurodollar Bonds; Eurodollar Financing)

Eurobonds are bonds (1) underwritten by an international syndicate, (2) issued simultaneously to investors in a number of countries, and (3) issued outside the jurisdiction of any single country.

Eurodollar Bonds are Eurobonds denominated in U.S. dollars. The interest rate charged on the debt is usually a spread over U.S. Treasury obligations having a similar maturity. Eurodollar bonds are generally unsecured obligations.

Eurodollar Financing is analogous to Eurodollar Bonds, but involves the issuance of debt securities that are specifically unsecured.

Eurodollar Financing may require the Company to enter into a letter of credit arrangement with one or more banks or such other agreements or arrangements as may be necessary or appropriate, from time to time, to support its obligation to repay the principal of, the interest on, and the premium (if any) on the debt. The Company estimates that such an arrangement could involve an issuance fee of approximately two percent of the principal amount sold.

Foreign Currency Debt Combined with a Currency Swap

A Currency Swap is an agreement to swap a series of specified payment obligations denominated in one currency for a series of specified payment obligations denominated in a different currency. Currency swaps are usually fixed for fixed but may involve floating rate interest payments in the swapped currencies.

³ LIBOR is the most widely used benchmark or reference rate for short-term interest rates. Many variable interest rates in the U.S. are based on spreads off LIBOR.

The issuance of Foreign Currency Debt (debt denominated in a currency other than U.S. dollars), combined with a currency swap, would allow the Company to issue debt in a foreign currency and execute a currency swap to effectively eliminate currency risk.⁴ By issuing in a foreign currency, the Company would attract investors that would not normally be investing in its securities. Issuing securities in a foreign currency becomes attractive when the nominal interest rate charged in the foreign country is significantly lower than the rate in the U.S. or in dollar-denominated securities. To the extent that the cost of executing the currency swap is less than the difference between the nominal interest rate in the foreign country and the dollar-denominated interest rate, issuing debt in a foreign currency and executing a currency swap provides a lower total cost of debt. The Company estimates that fees for a foreign currency offering would be approximately two percent of the principal amount sold.

Subordinated Debt

Subordinated debt is debt subordinated to other debt of the Company. The Company may issue the subordinated debt (a) directly to investors, as in the issuance and sale of its 8 3/8% Junior Subordinated Deferrable Interest Debentures, Series A, pursuant to Docket UF 4098, (b) in exchange for its outstanding securities, as in the issuance of its 8.55% Junior Subordinated Deferrable Interest Debentures, Series B, pursuant to Docket UF 4126, or (c) to a SPE in support of the preferred securities of the SPE, as in the issuance and sale of its 8 1/4% Junior Subordinated Deferrable Interest Debentures, Series C, pursuant to Docket UF 4140, and its 7.70% Junior Subordinated Debentures Series D, pursuant to Docket UF 4151.

PacifiCorp's Credit Ratings

The Company represents that its outstanding debt, as of the December 6, 2007 application date, is rated as follows:

<u>Security</u>	<u>Moody's</u>	<u>S & P</u>
Senior Secured Debt	A3	A-
Senior Unsecured Debt	Baa1	BBB+
Subordinated Debt	(P) Baa2	n/a

Fees and Expenses

The only fees payable by the Company other than those for technical services will be fees and expenses to the underwriters and agents (including any arrangement fees for currency swaps). Subject to final negotiations, PacifiCorp represents that the fee is not

⁴ Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

expected to exceed 3.0 percent of the aggregate principal amount of the Debt if the Debt is issued overseas. If issued domestically, the fee is not expected to exceed 1.0 percent of the aggregate principal amount of the Debt. If subordinated debt is issued, the fee is not expected to exceed 3.15 percent of the aggregate principal amount of the Debt. Company further represents that these compensation levels to the agents or underwriters are consistent with the usual and customary fees prevailing in the market and that the fees are reasonable given the services provided by the agents or underwriters.

Technical services fees and expenses associated with Debt issuance are estimated by PacifiCorp to total \$2,500,000.⁵

PacifiCorp represents that the firm or firms selected to lead an offering under this authority will be determined by the Company's assessment of their ability to assist the Company in meeting its objective of having the lowest total cost for the Debt to be issued.

The Securities will have maturities established at the time of issuance and are expected to range from nine months to thirty years, and will be sold through underwriters or agents, or privately placed directly to investors with or without the use of agents.

Interest rates on Debt issued might be fixed or floating. PacifiCorp requests authority for Debt issuance subject to either the Debt's cost to maturity not exceeding specified maximum total spreads over U.S. Treasury yields or the Debt being issued with a cost to maturity not exceeding 9.0 percent per annum. The Company's proposed spreads depend on the Security's maturity and for First Mortgage Bonds are attached as Table 1 in Attachment A. For interest rates on other debt, if the interest rate is floating, the maximum spreads over the applicable U.S. Treasury benchmarks are attached as Table 2 in Attachment A.

This request appears reasonable.

Use of Proceeds

PacifiCorp will use the proceeds for the following purposes: the acquisition of utility property or the construction, extension or improvement of utility facilities; the improvement or maintenance of service; the discharge or lawful refunding of its obligations; and, refunding the company's treasury expended on utility purposes. To the extent the Company's treasury is refunded, the original expenditures, or their

⁵ Technical services fees and expenses associated with debt issuance include regulatory agency fees, SEC fees, company counsel fees, accounting fees, printing and engraving fees, rating agency fees, and trustee/indenture fees.

precedents, were made for purposes described by ORS 757.415 (1) (a), (b), or (e). To the extent that obligations are discharged or refunded, those obligations or their precedents were used for purposes described by ORS 757.415 (1) (a) or (b).

These purposes are consistent with statutory requirements and are permitted under ORS 757.415(1).

PROPOSED COMMISSION MOTION:

The application of PacifiCorp to issue and sell or exchange up to \$2.0 billion of debt securities, enter into credit support agreements and currency swaps, and contribute or sell debt to special-purpose entities be approved with Staff's conditions and reporting requirements.

Attachment

Attachment A

Fixed Rate Spreads

As provided in the Company's application, the following maximum total spreads over Treasury yields represent alternate limitations from the 9.0 percent per annum cost to maturity limitation.

Interest rate on First Mortgage Bonds:

The interest rate will be determined at the time of issuance. The proposed maximum spread over the applicable Treasury security for various maturities is listed below. The bonds may have a feature that allows redemption prior to maturity at specified prices.

Table 1
Spreads on First Mortgage Bonds

Term Greater Than or Equal To	And Less Than	Maximum Spread Over Benchmark Treasury Yield
9 months	2 years	+ 185 basis points
2 years	3 years	+ 195 basis points
3 years	4 years	+ 210 basis points
4 years	6 years	+ 220 basis points
6 years	9 years	+ 230 basis points
9 years	10 years	+ 250 basis points
10 years	11 years	+ 260 basis points
11 years	15 years	+265 basis points
15 years	20 years	+ 270 basis points
20 years	30 years	+ 280 basis points
30 years or more		+ 290 basis points

Interest rate on Other Debt:

The interest rate on other debt will be determined at the time of issuance based upon then current market conditions. The proposed maximum spread over the applicable Treasury security for various maturities is listed below. The debt may have a feature that allows it to be redeemed prior to maturity at specified prices.

Table 2
Spreads on Other Debt

Term Greater Than or Equal To	And Less Than	Maximum Spread Over Benchmark Treasury Yield
9 months	2 years	+ 205 basis points
2 years	3 years	+ 215 basis points
3 years	4 years	+ 230 basis points
4 years	6 years	+ 240 basis points
6 years	9 years	+ 250 basis points
9 years	10 years	+ 270 basis points
10 years	11 years	+ 280 basis points
11 years	15 years	+285 basis points
15 years	20 years	+ 290 basis points
20 years	30 years	+ 300 basis points
30 years or more		+ 310 basis points