

**PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: January 22, 2008**

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

DATE: January 15, 2008

TO: Public Utility Commission

FROM: Steve Storm

THROUGH: Lee Sparling, Marc Hellman, and Bryan Conway

SUBJECT: PORTLAND GENERAL ELECTRIC: (Docket No. UF 4245) Application for authority to issue up to \$250,000,000 of first mortgage bonds.

STAFF RECOMMENDATION:

The Commission should approve Portland General Electric's (PGE 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 \$250,000,000 or, if the securities are issued at an original issue discount, such greater amount as shall result in an aggregate offering price of not more than \$250,000,000 (or its equivalent amount inclusive of any securities issued under this authority in foreign currencies).
- 2) Any remaining financing authority granted under Order Nos. 07-333 and 07-406, and Order No. 06-034 is withdrawn.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 rate(s) shall be consistent with the parameters specified in the Company's application and in Attachment A.
- 5) The Company shall demonstrate the cost-effectiveness of any early refunding of existing securities and that any call provision or required sinking fund placed on new issuances is cost-effective.
- 6) The Company may not issue debt to affiliates without separate, prior authorization.

- 7) 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.
- 8) 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, in U.S. Dollars, the total value of the issuance; per unit price(s); total expenses and net proceeds of the issuance; and interest costs and credit ratings. Should any issued securities be designated as medium-term notes, the Company shall file a Pricing Supplement with the Commission providing a description of the terms and conditions of each issuance of the medium-term notes.
- 9) 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, embedded expenses, and capital structure are just and reasonable.

DISCUSSION:

The Commission previously granted authorization to PGE for similar arrangements of this type in Order No. 07-333 as amended by Order No. 07-406 (UF 4241). The Company represents that all of the \$75 million in securities authorized in Order No. 04-333, as well as all of the \$275 million in securities authorized in Order No. 06-034 (UF 4224) have been issued prior to the date of this application. All securities issued under these Orders were in the form of First Mortgage Bonds.

On December 14, 2007, PGE filed an application with the Public Utility Commission of Oregon (Commission), pursuant to Oregon Revised Statutes (ORS) 757.410(1), 757.415(1), and Oregon Administrative Rules (OAR) 860-027-0030, for the authority to issue up to \$250 million in First Mortgage Bonds (FMBs).

Use of Proceeds

PGE represents that the purposes for which securities are proposed to be issued are 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; or the reimbursement of Company treasury for funds used for the foregoing purposes. The Company represents that these purposes are compatible with the public interest; necessary and appropriate

for and consistent with the proper performance by the Company of service as a public utility; will not impair the Company's ability to perform that service; and are reasonably appropriate for such purposes.

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

The Company requests authority to issue First Mortgage Bonds, which 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. PGE represents that the FMBs: will have a fixed interest rate; may have a sinking fund provision; may have a feature allowing for early redemption; and may be wrapped by an insurance policy purchased by the Company that would lower the all-in cost.

The FMBs may be priced with a delayed settlement feature allowing PGE to execute a binding purchase and sale agreement establishing the interest rate and other terms of the sale, but postpone the actual sale of the FMBs and receipt of funds to a date of the Company's choice up to one year later. This delayed settlement feature would allow PGE to lock-in interest rates but defer the sale of the FMBs to correspond with the Company's cash needs.

Pricing

PGE represents that the pricing of FMBs will fall within a maximum spread over the applicable Treasury securities for various maturities as listed in Table 1 of Attachment A.

Portland General Electric's Credit Ratings

The Company represents that its outstanding First Mortgage Bonds, as of November 1, 2007, are rated Baa1 by Moody's Investors Service and A by Standard & Poor's Ratings Services.

Fees and Expenses

The First Mortgage Bonds may be issued as public offerings or on a private placement basis. If issued as a public offering, PGE represents that the underwriters/agents will receive the difference between the price at which the underwriters/agents purchase the FMBs from PGE and the price at which the FMBs are sold by the underwriters/agents to the public. If the FMBs are sold on a private placement basis, the Company represents that the underwriters/agents will receive

the usual and customary amount prevailing for such sales, which will not exceed 0.875 percent of the aggregate principal amount of the FMBs, with the final amount to be negotiated by PGE.

Technical services fees and expenses associated with security issuance are estimated by PGE to total \$203,000.¹ Note that this estimate does not include any fees for company counsel.

PROPOSED COMMISSION MOTION:

The application of Portland General Electric to issue up to \$250 million of first mortgage bonds be approved with Staff's conditions and reporting requirements.

Attachment

¹ Technical services fees and expenses associated with debt issuance may include regulatory agency fees, SEC fees, company counsel fees, accounting fees, printing and engraving fees, rating agency fees, and trustee/indenture fees.

Attachment A

Interest rates:

The interest rate on the First Mortgage Bonds will be determined at the time of issuance unless the FMBs have the delayed settlement feature (discussed above), in which case the interest rate will be determined on the date PGE and FMB purchasers enter into a binding agreement for the purchase and sale of the FMBs.

Term Greater Than or Equal To	And Equal to Or Less Than	Maximum Spread Over Benchmark Treasury Yield
3 years	9 years	+ 210 basis points
10 years	14 years	+ 220 basis points
15 years	19 years	+ 230 basis points
20 years	24 years	+ 240 basis points
25 years	35 years	+ 250 basis points