

**PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: November 4, 2008**

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

DATE: October 27, 2008

TO: Public Utility Commission

FROM: Steve Storm

THROUGH: Lee Sparling and Marc Hellman

SUBJECT: PORTLAND GENERAL ELECTRIC: (Docket No. UF 4251(1)) Requests amendment to Order No. 08-441 in UF 4251.

STAFF RECOMMENDATION:

The Commission should approve Portland General Electric's (PGE or Company) request for an amendment to Order No. 08-441 in Docket No. UF 4251 subject to the following conditions and reporting requirements:

- 1) All conditions and reporting requirements associated with Order No. 08-441 continue to apply, except where expressly modified herein.

DISCUSSION:

PGE applied for authority to issue up to 10 million shares of common stock on July 28, 2008. The Commission approved PGE's application in UF 4251, Order No. 08-441, entered on August 28, 2008. PGE filed a supplemental application dated September 29, 2008, requesting Order No. 08-441 be amended to increase the number of shares authorized to be issued from up to 10 million to no more than 11 million shares. The Commission has not acted on this supplemental application.

On October 15, 2008, PGE filed a second supplemental application requesting the increase in the number of authorized shares to be issued to be no more than 12 million shares; i.e., PGE is requesting authorization for an increase of no more than two million shares of PGE common stock from the number of shares authorized in Order No. 08-441. This latest filing supersedes that of September 29, 2008, with no change other than the increase in shares.

PGE's October 15, 2008, application stated that "PGE understands and agrees that any common stock issued under an amended order will be subject to the terms and conditions of Order No. 08-441."

Use of Proceeds:

PGE's July 28, 2008, application stated that the estimated gross proceeds from the sale of the common stock were expected to be approximately \$230 million. This application stated the net proceeds will be used to acquire 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(1)(a), (1)(b), (1)(c), (1)(d), or (1)(e); or the reimbursement of PGE treasury for funds used for the foregoing purposes (except the maintenance of service and replacements).

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

PGE represented in the Company's September 29 application that the requested increase¹ in authorized shares "...is necessary to ensure that PGE can meet any over-allotment or "greenshoe"² option to sell up to 15% more stock than the stated offering size of transaction."

Recent declines in equity markets have impacted PGE's estimate of the offering size necessary to realize \$230 million in gross proceeds. The requested increase of 2 million

¹ From the 10 million authorized in Order No. 08-441 to the 11 million requested in PGE's September 29, 2008, application.

² A greenshoe option is a provision contained in an underwriting agreement giving the underwriter the right to sell to investors more shares than originally planned by the issuer. This would normally be done if the demand for a stock issuance proves higher than expected. Legally this provision is referred to as an over-allotment option.

A greenshoe option can provide additional price stability to a security issue because the underwriter has the ability to increase supply and smooth out price fluctuations if demand surges.

A typical greenshoe option allows underwriters to sell up to 15% more shares than the original number set by the issuer, if demand conditions warrant such action. Note that some issuers prefer not to include greenshoe options in their underwriting agreements under certain circumstances; e.g., if the issuer wants to fund a specific project at a specific level and does not want more capital than it originally sought.

The term is derived from the fact that the Green Shoe Manufacturing Company, now known as Stride Rite Corporation, was the first to issue this type of option.

shares³ from the prior authorization is partially due to the Company's desire to be able to utilize a greenshoe option, but primarily to ensure that PGE has sufficient authorization to meet its targeted equity amount of \$230 million.

Capital Structure:

As documented in the Staff Report for Docket No. UF 4251, prepared for the August 26, 2008, Public Meeting, PGE represented in the July 28, 2008, application⁴ that the Company is authorized by its Articles of Incorporation to issue up to 80 million shares of no par value common stock.

PGE represented in an October 17, 2008, e-mail to Staff that PGE's current⁵ capital structure is 50.2% equity and 49.8% debt. PGE's long-term target capital structure, as stated in the Company's July 28, 2008, application,⁶ is approximately 50% equity as a percentage of total capitalization. Issuance of \$230 million of PGE common stock, in conjunction with future issuance of previously authorized long-term debt,⁷ does not appear to be inconsistent with the target capital structure.

PGE represented in an October 7, 2008, e-mail to Staff that consideration of the Company's supplemental application at the Commission's November 4, 2008, Public Meeting was satisfactory to the Company.

Closing prices of PGE common (symbol "POR") on select dates of 2008 were \$27.08 on January 2, \$25.94 on August 28, \$23.10 on September 29, and \$18.71 on October 15.

PROPOSED COMMISSION MOTION:

Commission Order No. 08-441 be amended by inclusion of Staff's memorandum dated October 27, 2008; which specifies a maximum increase in the number of shares of PGE common stock authorized to be issued of no more than 12 million shares.

³ From the 10 million authorized in Order No. 08-441 to the 12 million requested in PGE's October 15, 2008, application.

⁴ See page 4 of 8.

⁵ As of September 30, 2008.

⁶ See page 1 of 8.

⁷ The Commission authorized issuance of up to \$250 million in First Mortgage Bonds in Order No. 08-106, entered on January 28, 2008.