

PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: March 9, 2017

REGULAR _____ CONSENT X EFFECTIVE DATE _____ N/A _____

DATE: March 3, 2017

TO: Public Utility Commission

FROM: Matt Muldoon 

THROUGH: Jason Eisdorfer  and Marc Hellman 

SUBJECT: PORTLAND GENERAL ELECTRIC: (Docket No. UF 4301) Requests authority to enter into up to \$60 million in credit support agreements.

STAFF RECOMMENDATION:

Staff recommends the Commission approve Portland General Electric Company's (PGE or Company) application to enter into new incremental credit support and reimbursement agreements with commercial banks, permitting the issuance or enlargement of up to an additional aggregate \$60 million in letters of credit (LC) , subject to the following Staff recommended Conditions:

1. Incremental new authority to enter into reimbursement agreements with one or more commercial banks in support of LCs shall not exceed \$60 million at any one time.
2. Incremental new authority to arrange LCs or enlargement of existing LC shall not exceed \$60 million outstanding at any one time.
3. No upfront fees are authorized.
4. LCs may be issued for up to one year and extended annually thereafter provided that all the conditions listed herein are met.
5. Annual fees will not exceed 1.25 percent of each LC amount on the daily amount available to be drawn.
6. Drawdowns will not exceed 2 percent plus the participating bank's prime lending rate.
7. Amendments to LCs will not exceed \$150 per amendment.
8. Aggregate Company and participating bank legal fees will not exceed \$150,000.

9. Total cost inclusive of all miscellaneous charges and fees shall in all cases be less than the aggregate expense for like service and maturity under the Company's revolving credit facility authorized in Commission Order No. 15-041.
10. Consolidated reporting requirements described in prior orders in effect continue to apply.
11. The Commission reserves the right to determine the reasonableness of usage and costs in future rate proceedings.

DISCUSSION:

Issue

Whether the Commission should approve the Company's request for \$60 million new incremental credit authority subject to the Conditions listed above and incorporated by reference to Commission Order No. 15-041.

Applicable Law

Under ORS 757.415(1), a public utility may issue stocks and bonds, notes and other evidences of indebtedness, certificates of beneficial interests in a trust and securities for the following purposes:

- “(a) The acquisition of property, or the construction, completion, extension or improvement of its facilities.
- (b) The improvement or maintenance of its service.
- (c) The discharge or lawful refunding of its obligations.
- (d) The reimbursement of money actually expended from income or from any other money in the treasury of the public utility not secured by or obtained from the issue of stocks or bonds, notes or other evidences of indebtedness, or securities of such public utility . . .
- (e) The compliance with terms and conditions of options granted to its employees to purchase its stock, if the commission first finds that such terms and conditions are reasonable and in the public interest.
- (f) The finance or refinance of bondable conservation investment as described in ORS 757.455”

However, an order of the Commission is required before a public utility may issue stocks and long-term bonds (of duration more than one year), notes or other evidences of indebtedness, and any security. ORS 757.410. The Commission may grant

permission for the amount requested by the public utility, for a lesser amount, or for none at all. Further, the Commission may include in its order such conditions to approval that it deems reasonable and necessary. ORS 757.430.

Application requirements and the exhibits that must be attached are set forth in OAR 860-027-0030.

Analysis

Background

On January 24, 2017, PGE filed a request for authorization to enter into agreements with commercial banks for the issuance of up to an incremental \$60 million in LC through credit reimbursement agreements. The primary use of the LC is to provide collateral in construction and in market transactions and to provide reclamation guarantees that new PGE plant sites will be appropriately restored after the end of the useful life of the plants. Such standby letters of credit allow PGE to avoid costs associated with revolving credit facilities or the posting of cash with counterparties.

Staff reviewed PGE's filing and is satisfied that all requirements of OAR 860-027-0030 have been met. Staff recommends that the Commission grant PGE's request in the full amount requested because it will be used for authorized purposes, namely to guarantee restoration of land after the end of the useful life of generating plants, and to reduce cost of necessary utility market transaction, construction and maintenance contracts, and is appropriate with the adoption of the additional Conditions provided herein.

Use of Proceeds

The LCs to be issued will be used for credit support and will not produce any cash proceeds. The purposes listed on page 1 of the Company's application are consistent with applicable law governing usual and necessary utility purposes.

Adequate Cost-Effective Guarantees

In routine market transactions, in guaranteeing construction costs, and in ensuring PGE will meet future plant decommissioning and site restoration obligations, PGE's existing \$500 million revolving credit facility is an excellent financial tool, but it is more expensive to issue an LC under the revolving credit facility than under separate facilities. Because PGE is an established, investment grade company, less costly, standby LCs are adequate to satisfy certain financial guarantees. After reviewing the Company's filing and supporting documentation, Staff finds that it is to ratepayers' advantage for the Company to provide sufficient guarantees at lower cost, when less-expensive guarantees are adequate for certain utility purposes.

LCs issued under the new reimbursement agreements may be issued for up to one year, but may be extended by mutual agreement at any anniversary date. This allows

the LCs to guarantee relatively distant future actions like land reclamation at much lower cost than other alternatives.

PGE must provide some guarantees. For example, when PGE builds a new facility, it must satisfy Oregon regulators that the Company has provided for sufficient financial guarantees as to restore the facility site at end of operational life. Similarly PGE provides LCs to satisfy contractors that PGE will meet the terms of its contracts with sufficient certainty that no other bond or financial surety is necessary.

Within this same area, various local banks and subsidiaries of larger financial institutions are also well known. With approval of this application, ratepayers benefit from PGE selectively using local guarantees for letters of credit that are adequate to satisfy government and counterparty requirements, but obtained at lower cost than like guarantees obtained directly from a full-service investment bank with capitalization over \$200 billion known globally.

Outstanding Authorization

On February 10, 2015, the Commission authorized PGE to consolidate its \$300 million and \$400 million revolving Credit Agreements into a single comprehensive \$500 million. Under Commission Order Nos. 13-099, 13-354, 13-224 and 15-145, PGE also is authorized to enter into agreements with commercial banks for the issuance of up to \$160 million in LC through credit reimbursement agreements. PGE requests authority to enter into agreements for the issuance of an additional \$60 million in LC, for an aggregate total of \$220 million, as set forth below:

Current Credit Authorization

<u>Order No. 15-041:</u>	\$500 million	(Docket No. UF 4272(2))
	\$500 million	<i>Comprehensive Revolving Credit</i>
Order No. 13-099	\$25 million	(Docket No. UF 4277)
Order No. 13-354	\$5 Million	(Docket No. UF 4277(1))
Order No. 13-224	\$30 million	(Docket No. UF 4279)
<u>Order No. 15-145</u>	\$100 million	(Docket No. UF 4292)
	\$160 million	<i>Restricted to LCs</i>

Proposed Credit Authorization

<u>Order No. 15-041:</u>	\$500 million	(Docket No. UF 4272(2))
	\$500 million	<i>Comprehensive Revolving Credit</i>
Order No. 13-099	\$25 million	(Docket No. UF 4277)

Order No. 13-354	\$5 Million	(Docket No. UF 4277(1))
Order No. 13-224	\$30 million	(Docket No. UF 4279)
Order No. 15-145	\$100 million	(Docket No. UF 4292)
<u>(Pending)</u>	<u>\$60 million</u>	<u>(Docket No. UF 4301)</u>
\$220 million <i>Restricted to LCs</i>		

Under the requested new reimbursement agreements in this application, aggregate letters of credit outstanding at any one time will not exceed \$60 million. Authorized expenses will be limited to customary and usual fees. Total legal expenses including all fees and expenses for aggregated PGE and bank counsel shall not exceed \$150,000. Aggregate annual LC fees shall not exceed 1.25 percent per annum on the daily amount available to be drawn.

If the Commission issues a final order adopting Staff's recommended Conditions, PGE will have the aggregate authority to issue up to \$220 million of LCs at any one time under existing or new facilities entered into with commercial banks, subject to cost prudence. The Company can increase the size of the existing facilities to the extent of the new authority requested herein, or enter into one or more new facilities so long as the total of outstanding LCs does not exceed the total aggregate authority shown above.

For Example: PGE could enlarge an existing LC if regulators determined that a given facility would require more work in the future to restore certain land when that land would no longer be the site of an operating generation plant. Conversely, PGE could form a new incremental reimbursement agreement with commercial banks supporting one or more new LCs. Such LCs through a local bank known to Oregon regulators is cheaper than the cost of issuing bonds, or providing other forms of financial certainty. Further, when PGE, these counterparties and regulators, are all mutually known to each other, PGE can use less expensive unsecured LCs, in contrast to LCs guaranteed by its full revolving credit facility or bonds back by its utility assets. This flexibility allows PGE to conduct normal and necessary utility business, but at reduced cost and risk.

Draw Down

Any draw down under the requested new letters of credit must be reimbursed immediately by PGE upon demand by the issuing bank. If not paid, PGE will accrue interest at the bank's customary prime lending rate plus two percent until the draw is paid in full. The Company would also incur applicable legal fees.

Appropriate Liquidity

As PGE works to replace certain facilities and make others more efficient, the Company's market capitalization is growing as shown in the graph below.¹ Required available liquidity to meet necessary utility regulatory, reliability, financial market and customer expectations is similarly growing. This requires new LC authority.

Portland General Electric Market Cap Chart

[View Full Chart](#)



Portland General Electric Historical Market Cap Data

Source: Y Charts https://ycharts.com/companies/POR/market_cap January 25, 2017

Further, maintaining adequate liquidity with timely refreshment is essential as PGE pursues a notch higher S&P credit rating.

Current Credit Ratings

PGE's First Mortgage Bonds (FMB) are currently rated as:

Moody's: A1

S&P: A-

PGE's Unsecured Long-Term Debt is currently rated as:

Moody's: A3

S&P: BBB

While difficult to quantify precisely, S&P increasing PGE's credit ratings by one notch, translates to lower-cost revolving credit facilities and lower-cost of debt issuance resulting in ratepayer, Company, and investor benefit. PGE's proposed low-cost incremental credit facilities are consistent with how credit rating agencies describe liquidity management of higher rated U.S. publicly traded utilities. An immediate benefit is the avoidance of credit rating fees as the proposed new reimbursement agreements need not be rated.

¹ Yahoo Finance shows PGE's market capitalization at \$3.85 billion as of January 25, 2017. <https://finance.yahoo.com/quote/POR?p=POR>.

Correction of Application Data

Staff clarifies that PGE has 160,000,000 common shares authorized by its board of directors.²

No Conflict with Federal Energy Regulatory Commission (FERC) Controls

This application conforms to FERC aggregate short-term debt limitation of \$900 million.

Conclusion

PGE asserts that approval of this application will allow the Company to meet stated utility needs with lowest cost LCs for similar type and maturity currently available to PGE. Staff has thoroughly reviewed PGE's application and agrees that PGE's proposal serves essential utility purposes while avoiding unnecessary costs and controlling risk, as compared to the alternatives considered, such as expansion of the Company's revolving credit facility.

The Company has reviewed this memo and has not voiced any concerns.

PROPOSED COMMISSION MOTION:

Approve PGE's request for authority to enter into up to \$60 million in credit support agreements for letter of credit issuance subject to Staff Conditions 1 through 11.

² This is a correction to Part (f) on Page 3 of the Company's application, which Staff has verified with the Company.