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BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UF 4188

In the Matter of)	
)	
PORTLAND GENERAL ELECTRIC)	
COMPANY)	ORDER
)	
Application for Authority to Issue and Sell Not)	
More Than \$300 Million of First Mortgage)	
Bonds.)	

**DISPOSITION: APPLICATION APPROVED; WITH
CONDITIONS AND REPORTING REQUIREMENTS**

On May 29, 2002, Portland General Electric Company (PGE or Company) submitted an application with the Public Utility Commission of Oregon (Commission) requesting authority to issue up to \$300 million of First Mortgage Bonds to secure the Company's short-term revolving credit facilities. The basis for the current request is detailed in Staff's recommendation memo, attached as Appendix A and incorporated herein.

Based on a review of the application and the Commission's records, the Commission finds that this application satisfies applicable statutes and administrative rules. At its special public meeting on June 7, 2002, the Commission adopted Staff's recommendation and approved PGE's current request.

ORDER

IT IS ORDERED THAT the application of Portland General Electric Company for authorization to issue and sell securities, is granted, subject to the conditions and reporting requirements set forth in Appendix A.

Made, entered and effective _____.

ORDER NO. 02-384

BY THE COMMISSION:

Rick Willis
Executive Director

A party may request rehearing or reconsideration of this order pursuant to ORS 756.561. A party may appeal this order to a court pursuant to ORS 756.580.

ITEM NO. 2

**PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
SPECIAL PUBLIC MEETING DATE: June 7, 2002**

REGULAR X CONSENT _____ EFFECTIVE DATE _____

DATE: June 10, 2002

TO: John Savage through Marc Hellman and Bryan Conway

FROM: Thomas D. Morgan

SUBJECT: PORTLAND GENERAL ELECTRIC: (Docket No. UF 4188) Application to secure two credit facilities with First Mortgage Bonds.

STAFF RECOMMENDATION:

The Commission should approve Portland General Electric's (PGE or Company) application, granting authority to secure its Revolving Lines of Credit (Revolvers) with First Mortgage Bonds (FMBs or Bonds) subject to the conditions and reporting requirements discussed below:

1. Debt proceeds under this authority will be used for refinancing funds expended under short-term borrowing agreements for obligations of the Company as permitted in ORS 757.415. Residual borrowing capacity available to the Company from this or prior Commission authorizations may be used only for refinancing other existing long-term debt and other lawful purposes.
2. This authorization to issue Bonds will remain in effect as long as the Company maintains senior secured debt ratings of at least BBB-/Baa3 (i.e., "investment grade") from Standard & Poor's and Moody's Investors Service, Inc., respectively. Any outstanding Bonds issued under this authority will remain in effect until expiration of the underlying credit facility as described in this Memo.
3. PGE should file the usual Report of Securities Issued and Disposition of Net Proceeds statements as soon as possible after any issuance.
4. When determining the equity capitalization ratio in conjunction with any dividend payments to Enron or any successor, PGE agrees to include the FMBs that have been pledged as security for any Revolvers in the calculation of the ratio pursuant to Condition 6 of the merger stipulation (UM 814).

DISCUSSION:

On May 29, 2002, PGE filed an application with the Commission to approve the creation of a secured obligation under two Revolvers. FMBs will be issued under the Company's existing Mortgage and Deed of Trust and issued as such collateral. The Company requests an expedited order consistent with its application because of the expiration of a bank facility.

PGE is seeking to replace its \$200 million, 364-day short-term credit facility that is set to expire on June 12, 2002 with a \$150 million facility. PGE's other \$150 million credit facility has a three-year-term and does not require renewal until June 27, 2003. Each issuance of Bonds would have a maturity of less than two years and will correspond to the duration of the underlying Revolvers. Additionally, the interest rate on the Bonds will be based on the terms applicable to the underlying Revolvers with maximum spreads ranging between 75 and 350 basis points¹ over LIBOR².

The FMBs provided as security pursuant to the approval of this application will allow the Company, in effect, to issue additional securities with the rights consistent with senior secured long-term debt. In the event of default, the senior claim provided to the Revolver(s) creates increased recovery potential.

The expenses for issuance, underwriting and insurance total roughly \$75,000, based on the application provided. Such costs appear reasonable.

PGE's request is in response to the financial pressures placed on the Company as a result of the Enron bankruptcy proceedings. The Company represents that the financial pressures have increased due to the termination of the sale agreement between Enron and Northwest Natural Gas (UM 1045). This approval, if granted, would provide an interim solution to the Company's financing requirements and would provide needed liquidity for operational uses.

On June 4, 1997, the Commission entered Order UM 814 requiring PGE to maintain a common equity portion of its capital structure at 48 percent or higher unless the Commission approves a different level.

PGE has represented that it will likely be submitting additional financing applications in the near future for long-term debt issuances. Assuming the issuance of long-term debt anticipated by the Company, Staff believes that PGE will approach the 48 percent equity capitalization limit. Condition 4 under Staff's recommendations specifically addresses this issue.

Additionally, Condition 6 of the Stipulation in UM 814 requires that "PGE shall not make any distribution to Enron that would cause PGE's equity capital to fall below 48 percent of the total PGE capital without Commission approval. The Commission Staff, PGE and Enron may re-examine this minimum common equity percentage as financial conditions change, and may request that it be adjusted."

¹ A basis point is one-hundredth (1/100) of a percentage point, i.e., 100 basis points is 1.00 percent.

² LIBOR is the acronym for London Interbank Offered Rate and is the interest rate offered among a specific group of London banks for Eurodollar deposits of a stated maturity. LIBOR is used as a base index for setting rates of some adjustable rate financial instruments.

Staff believes that the calculation of the equity capitalization ratio should include any amount explicitly pledged to support the Revolver when PGE considers any dividends available for distribution to Enron, regardless of any outstanding balance on the Revolver(s). Staff does not normally include such outstanding balances when determining the equity capitalization ratio because of their short-term nature.

However, if the revolving short-term loan is backed up by long-term FMBs, the total Revolver capacity, not the outstanding balance, would be included in the calculation of the 48 percent equity ratio. This is because if the Company defaults on the short-term unsecured revolver, then the lending syndicate or bank owns FMBs that are secured by the underlying assets of the Company.

While a secured credit facility provided in this docket is authorized or in effect, the Company has agreed to limit any such dividend payments to Enron pursuant to this parameter.

The Company represents that the underlying security provided by the FMBs for the Revolver(s) would provide the Company with needed liquidity. The approval of this application with the proposed conditions will provide access to working capital for PGE.

PROPOSED COMMISSION MOTION:

PGE's application to issue First Mortgage Bonds to provide up to \$300 million in security for its Revolving Lines of Credit is approved with Staff's Conditions.