

**BEFORE THE PUBLIC UTILITY COMMISSION**

**OF OREGON**

UF 4215

In the Matter of	)	
	)	
PACIFICORP	)	ORDER
	)	
Application for Authority to Issue and Sell	)	
or Exchange not more than \$1,000,000,000	)	
of Debt Securities, Enter into Credit Support	)	
Arrangements, Enter into Currency Swaps,	)	
and Contribute or Sell Debt to Special	)	
Purpose Entities.	)	

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

On April 11, 2005, PacifiCorp filed an application with the Public Utility Commission of Oregon (Commission), pursuant to ORS 757.415, ORS 757.480, and OAR 860-027-0030, for the authority to (1) issue not more than \$1,000,000,000 of debt; (2) enter into letter of credit arrangements; (3) enter into one or more currency swaps; and (4) contribute or sell debt to special purpose entities.

The Commission issued Order No. 99-786 on November 9, 1999, granting authority to issue \$1,600,000,000 of debt. PacifiCorp filed a supplemental application on October 23, 2001, proposing a new table of spreads. The Commission issued Order No. 01-965 granting PacifiCorp's request.

PacifiCorp represents that the \$1 billion will accommodate the Company's future financing requirements. The requested authority would also preserve the financing flexibility that the Commission had previously authorized in the above orders. PacifiCorp has fully issued all the debt that was authorized in Order No. 99-786. The basis for the current request is further detailed in Staff's recommendation memo, attached as Appendix A, and incorporated by reference.

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 public meeting on May 3, 2005, the Commission adopted Staff's recommendation and approved PacifiCorp's current request.

**ORDER**

IT IS ORDERED that PacifiCorp's application requesting authority to (1) issue not more than \$1,000,000,000 of debt; (2) enter into letter of credit arrangements; (3) enter into one or more currency swaps; and (4) contribute or sell debt to special purpose entities is approved, subject to the conditions and reporting requirements detailed in Appendix A.

Made, entered, and effective                     MAY 09 2005                    .

BY THE COMMISSION:



                    Becky L. Beier                      
Becky L. Beier  
Commission Secretary

A party may request rehearing or reconsideration of this order pursuant to ORS 756.561. A request for rehearing or reconsideration must be filed with the Commission within 60 days of the date of service of this order. The request must comply with the requirements in OAR 860-014-0095. A copy of any such request must also be served on each party to the proceeding as provided by OAR 860-013-0070(2). A party may appeal this order to a court pursuant to applicable law.

**PUBLIC UTILITY COMMISSION OF OREGON**  
**STAFF REPORT**  
**PUBLIC MEETING DATE: May 3, 2005**

**REGULAR**  **CONSENT**  **EFFECTIVE DATE** \_\_\_\_\_ **N/A**

**DATE:** April 26, 2005

**TO:** Public Utility Commission

**FROM:** Ming Peng

**THROUGH:** Lee Sparling, Marc Hellman, and Bryan Conway

**SUBJECT:** PACIFICORP: (Docket No. UF 4215) Application for Authority to Issue and Sell or Exchange not more than \$1,000,000,000 of Debt Securities, Enter into Credit Support Arrangements, Enter into Currency Swaps, and Contribute or Sell 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 Company shall demonstrate that it achieves a competitive rate on any publicly offered security as well as any privately placed security.
- 2) The Company shall demonstrate that any early refunding is cost-effective.
- 3) The authorization should 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.
- 4) The interest rates shall be consistent with the parameters specified in the Company's application and detailed in Attachment A.
- 5) The Company shall file the usual Report of Securities Issued and Disposition of Net Proceeds statements as soon as possible after each issuance and sale. This report shall include the total amount, per unit price, total expenses and net proceeds of the issuance, as well as interest costs and credit ratings.

- 6) For an issuance of subordinated debt to an SPE, the Company shall provide full disclosure of all agreements 15-days prior to an issuance.
- 7) For ratemaking purposes, the Commission will reserve judgment on the reasonableness of the Company's capital costs, capital structure and the commissions and expenses incurred for security issuances. In its next rate proceeding, the Company will be required to show that its capital costs, including imbedded expenses and structure, are just and reasonable.

**DISCUSSION:**

On November 9, 1999, PacifiCorp filed an application pursuant to Oregon revised statutes (ORS) 757.415, 757.480, and Oregon administrative rule 860-27-030 for authority to issue not more than \$1,600,000,000 of debt. On December 23, 1999, the commission issued Order No. 99-786 in UF 4167 granting the Company's request.

On October 23, 2001, PacifiCorp filed a supplemental application requesting the Commission amend Order No. 99-786. PacifiCorp proposed a new table of spreads in this application. On November 6, 2001, the Commission approved PacifiCorp's request and issued Order No. 01-965.

On April 11, 2005, PacifiCorp filed an application pursuant to ORS 757.415, 757.480, and OAR 860-027-0030 for authority to (1) issue not more than \$1,000,000,000 of debt, (2) enter into letter of credit arrangements, (3) enter into one or more currency swaps, and (4) contribute or sell debt to special purpose entities (SPE).

PacifiCorp represents that the \$1.0 billion of requested authority is expected to accommodate the Company's future financing requirements which include the refinancing of approximately \$650 million of debt securities that mature over the next three years. The requested authority would preserve the financing flexibility that the Commission had previously authorized in Order No. 99-786 in Docket No. UF 4167, as amended by Supplemental Order No. 01-965. In the 1999 Order, the Commission authorized the Company to issue up to \$1.6 billion of securities similar to those covered in the current Application. No authority remains under the 1999 Order; PacifiCorp has fully issued all the debt that was authorized under that application.

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

**First Mortgage Bonds (FMBs)**

FMBs have been the traditional source of debt capital for U.S. utilities. FMBs are secured by a mortgage on PacifiCorp's fixed assets.

### **Medium-Term Notes (MTNs)**

MTNs are typically offered on a continuous basis by the borrower through one or more managers who act as agents in placing the notes, either domestically or through global programs. MTNs can be offered on a secured or unsecured basis. Notes range in maturity from one to 100 years.

### **Floating-Rate Debt**

Floating-rate debt is typically unsecured with interest rates that are reset anywhere from daily to annually. The most common indices used for pricing floating-rate debt are based on London Interbank Offered Rate (LIBOR)<sup>1</sup>, commercial paper, and Treasury bill rates.

### **Eurodollar Bonds (Eurobonds)**

Eurobonds are dollar-denominated bonds sold outside the United States. Eurobonds are generally sold through a foreign underwriter or a foreign subsidiary of a U.S. underwriter. The Company may 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.

### **Foreign Currency Debt Combined with a Currency Swap**

Foreign currency debt is issued in a foreign currency and will be combined with a currency swap such that PacifiCorp will receive its principal in U.S. dollars and make all principal and interest payments in U.S. dollars. The currency exchange agreement will generally be negotiated with a third party whose long-term credit rating is A or better for agreements of less than five years and AA or better if the agreement is five years or longer. In order to effectively eliminate the currency risk, the Company would enter into a currency swap that would be executed simultaneously with the foreign currency offering.

### **Subordinated Debt**

Subordinated debt is debt subordinated to other debt of the company. It may be issued to a "special purpose entity" (SPE) which will, in turn, issue preferred stock to the public. The intention of such an arrangement is to maintain the tax deductibility of debt but obtain the benefit of having some amount of the securities considered equity on the utility's books.

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

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<sup>1</sup> 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.

placed directly to investors with or without the use of agents. The interest rates might be fixed or floating. If the interest rates are fixed, then they will not exceed US Treasury rates plus a spread. The proposed spreads depend on the Security's maturity and are attached as Table 1. If the interest rate is floating, then the initial interest rate will not exceed one of four base rates plus a spread. The schedule of floating-rate spreads is included as Table 2.

### **PacifiCorp's Credit Ratings**

The Company's outstanding debt is currently rated as follows:

<u>Security</u>	<u>Moody's</u>	<u>S &amp; P</u>
Senior Secured Debt	A3	A-
Senior Unsecured Debt	Baa1	BBB+
Subordinated Debt	Baa2	BBB+

### **Fees and Expenses**

Commissions to MTN agents will not exceed those shown on Table 3. Underwriting fees for issuing other securities will not exceed 3.15% of the aggregate issue amount. Other expenses are not expected to exceed \$1,250,000 (0.125%). The Company requests alternate limitations on debt issuance cost in its Application. PacifiCorp represents that the debt is either issued with a cost to maturity not exceeding the spreads over treasury yields established by the Commission or is issued with a cost to maturity not exceeding 9.0% per annum. PacifiCorp represents that this alternative provides important flexibility in case spreads increase during the period of time that this authority would remain in effect. 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 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).

### **Applications for Authority to Finance**

PacifiCorp represents that in addition to this Oregon Application, the Company is filing applications with the Idaho Public Utilities Commission and the Washington Utilities and Transportation Commission. The California Public Utilities Commission, the Utah Public Service Commission and the Wyoming Public Service Commission have exempted the Company from their respective securities statutes.

**PROPOSED COMMISSION MOTION:**

Pursuant to Oregon Revised Statute (ORS) 757.415, and Oregon Administrative Rules (OAR) 860-027-0025 and 860-027-0030, the application of PacifiCorp to issue up to \$1.0 billion of debt securities, enter into credit support agreements, enter into currency swaps, and contribute or sell debt to special purpose entities be approved with the conditions and reporting requirements.

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**Attachment A**

As provided in the Company's Application, the following maximum all-in spreads over treasury yields represent alternate limitations from the 9.0% per annum cost to maturity limitation.

**Interest rate on First Mortgage Bonds:**

The interest rate on Bonds 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. Fixed-Rate Spreads**

<b>Greater Than or Equal To</b>	<b>Less Than</b>	<b>Maximum Spread Over Benchmark Treasury Yield</b>
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 the 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.

<b>Greater Than or Equal To</b>	<b>Less Than</b>	<b>Maximum Spread Over Benchmark Treasury Yield</b>
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



**Table 2**  
**Securities' Maximum All-in Spread over Index**  
**Floating-Rate Spreads**

Term in Years	1	2	3	4	5	6	7
Index							
LIBOR	+75	+100	+110	+115	+120	+125	+135
CP	+85	+110	+120	+125	+130	+135	+140
T-Bills	+110	+135	+150	+155	+160	+165	+175
Fed Funds	+110	+135	+150	+155	+160	+165	+175

**Table 3**  
**Commissions to MTN Agents**

Range of Maturities	Commission (Percentage of Aggregate Principal Amount of MTNs Sold)
From 9 months to less than 1 year	.125%
From 1 year to less than 18 months	.150%
From 18 months to less than 2 years	.200%
From 2 years to less than 3 years	.250%
From 3 years to less than 4 years	.350%
From 4 years to less than 5 years	.450%
From 5 years to less than 6 years	.500%
From 6 years to less than 7 years	.550%
From 7 years to less than 10 years	.600%
From 10 years to less than 15 years	.625%
From 15 years to less than 20 years	.700%
20 years and more	.750%