

**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON**

UF 4224

In the Matter of)	
)	
PORTLAND GENERAL ELECTRIC)	ORDER
)	
Application for authority to issue and sell)	
not more than \$275 million of First)	
Mortgage Bonds.)	

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

On December 21, 2005, Portland General Electric Company (PGE or Company) submitted an application to the Public Utility Commission of Oregon (Commission), requesting authorization to issue up to \$275 million of its First Mortgage Bonds, including medium term notes (Bonds). PGE represents that the proposed offering is pursuant to the Company's established 2006-2007 Finance and Investment Plan. The company also represents that the transaction set forth in this application will produce the lowest cost of funds currently available to PGE for borrowing. The basis for the current request is detailed in Staff's recommendation memo, attached as Appendix A.

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 January 26, 2006, 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 the authority to issue and sell not more than \$275 million of its First Mortgage Bonds, including medium term notes, is granted, subject to the conditions and reporting requirements specified in Appendix A.

Made, entered, and effective JAN 26 2006.

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 by filing a petition for review with the Court of Appeals in compliance with ORS 183.480-183.484.

ITEM NO. CA3

**PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: January 26, 2006**

REGULAR CONSENT EFFECTIVE DATE N/A

DATE: January 17, 2006

TO: Public Utility Commission

FROM: Ming Peng *mp.*

THROUGH: *u* Lee Sparling, *N* Marc Hellman, and *Af'bc* Bryan Conway

SUBJECT: PORTLAND GENERAL ELECTRIC: (Docket No. UF 4224) Application for authority to issue and sell not more than \$275 million of First Mortgage Bonds.

STAFF RECOMMENDATION:

The Commission should approve Portland General Electric's (PGE or Company) application to issue not more than \$275 million of First Mortgage Bonds (FMBs), subject to the following conditions and reporting requirements:

- 1) The Company shall file the usual Report of Securities Issued and Disposition of Net Proceeds statement as soon as possible after any issuance. Upon each issuance of Securities, the Company shall file documentation with the Commission providing a specific description of the terms and conditions of each issuance of the Securities.
- 2) The Company shall demonstrate that the rate(s) it achieves on new securities is consistent with market rates or otherwise demonstrate that the rate(s) it achieves is competitive. The demonstrations should be filed as soon as possible after each issuance and sale and will include a demonstration that fees for partial issuances are reasonable.
- 3) The requested authority (\$275 million FMBs) in this authorization replaces all existing unused debt authority previously issued by this Commission.
- 4) The Company shall demonstrate that any early refunding or the exercise of any call provision or required sinking fund placed on the issuance is cost-effective.

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- 5) The authorization shall remain in effect as long as the Company maintains debt ratings of at least BBB-/Baa3 (i.e., "investment-grade") from Standard & Poor's and Moody's Investors' Service, Inc., respectively on any debt security type it intends to market.
- 6) If any agents or underwriters are involved in the sale of the Bonds, the names of such, the initial price to the public, any applicable commissions or discounts and the net proceeds to the Company shall be filed with the Commission. If the Debt is sold to an agent or agents as principal, the name of the agents, the price paid by the agents, any applicable commission or discount paid by the Company to the agents and the net proceeds to the Company will be filed with the Commission.
- 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 December 21, 2005, PGE filed an application pursuant to Oregon Revised Statutes (ORS) 757.410 & 757.415, and Oregon Administrative Rule (OAR) 860-027-0030 for authority to issue up to \$275 million of its First Mortgage Bonds, including medium term notes (Bonds).

PGE represents that the proposed offering is pursuant to the Company's established 2006-2007 Finance and Investment Plan. The Company also represents that the transaction set forth in this application will produce the lowest cost of funds currently available to PGE for borrowing.

Bonds:

First Mortgage Bonds are secured by a mortgage on PGE's fixed assets. The Company expects to issue the Bonds from time to time in amounts not to exceed \$275 million in aggregate. The maturities of the various series are expected to be from 3 to 30 years, and the Bonds would be issued under the Company's existing Indenture of Mortgage and Deed of Trust ("First Mortgage Indenture"). The Trustee under the First Mortgage Indenture is HSBC Bank USA.

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The Company will issue the Bonds under the Indenture with two of the following investment banking firms: Deutsche Bank, Lehman Brothers, JP Morgan, Wells Fargo or others. The Bonds may be sold on a negotiated or competitive bid basis.

PGE Anticipates Early Redemption of Bonds - Make Whole Call (Provision)

PGE represents that it has a large amount (approximately \$338 million) of long-term debt that matures in 2010, and this exposes PGE to a large refunding and interest rate risk. PGE represents that reducing this exposure is prudent.

PGE anticipates refinancing a \$150 million, 8-year, 8.125% bond issued October 2002, by using "Make Whole Call" provision. A Make Whole Call is a type of call provision on a bond allowing the borrower to pay off remaining debt early. The borrower has to make a lump sum payment derived from a formula based on the net present value (NPV) of future coupon payments that will not be paid if the debt is redeemed. The amount of money that must be paid to the bondholder in addition to the par amount of the bond in order to exercise a redemption is intended to make the bondholder indifferent between PGE holding or redeeming the bond.

Order 05-1250 contains a provision where PGE has agreed not to seek recovery of increases in the allowed return on common equity and other costs of capital due to Enron's ownership of PGE or ownership of the Reserve of 25% or more of PGE's issued and outstanding common stock. Further PGE has agreed to hold an additional \$40 million in equity to assure PGE's financial capacity to absorb adjustment(s), if any, in PGE's revenue requirement resulting from this provision.

PGE represents that the old bond redemption and new bond issuance would save interest expense due to a lower coupon rate. However, the payment of the Make Whole Call provision may offset the savings.

Staff believes the bonds to be refunded were issued under the Enron overhang, and were therefore more expensive than they otherwise would have been and PGE may not have had sufficient flexibility to issue debt of differing maturity. Therefore, Staff asserts that PGE's cost of capital is higher due to Enron's ownership regardless if PGE refinances the Bond or if the refinancing of the Bond is cost-effective.

PGE's Bond Ratings

PGE's outstanding First Mortgage Bonds are currently rated Baa1 by Moody's and BBB+ by Standard & Poor's. The Company expects to apply for and receive a rating on any Bonds issued.

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Interest Rate

The interest rate on the Bonds will be fixed and will be determined at the time they are issued. The fixed interest rates will not exceed US Treasury rates plus a spread. The proposed maximum spreads over US Treasury rates for various maturities are listed in Table 1. The Bonds may have a feature which allows them to be redeemed prior to maturity at specified prices.

Expense

The underwriters' commission will not exceed 1% (or \$2.75 million) of the aggregate principal amount of the Bonds (see Table 2). The total expense from the sale is estimated to be \$3.02 million, which is 1.1% of the total amount of \$275 million.

The interest rates, fees, and expenses appear reasonable.

Use of Proceeds

PGE will use the proceeds of any issuance under this authority for the following purposes: 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 permitted under ORS 757.415 (1) or the reimbursement of the Company treasury for funds used for the foregoing purposes, except the maintenance of service and replacements. To the extent proceeds are used to reimburse the treasury for funds used to discharge or lawfully refund obligations, such obligations were incurred for purposes described in ORS 757.415 (1).

PROPOSED COMMISSION MOTION:

Portland General Electric's application, UF 4224, should be approved subject to Staff's conditions and reporting requirements.

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Table 1
PGE Summary for FMB/MTN Maximum Spreads over US Treasury
(Assumes Senior Secured Debt Ratings of Baa1/BBB+)

<u>Greater Than or Equal To</u>	<u>Equal to or Less Than</u>	<u>Maximum Spread Over Benchmark Treasury Yield</u>
3 years	9 years	+120 basis points
10 years	14 years	+130 basis points
15 years	19 years	+140 basis points
20 years	24 years	+150 basis points
25 years	30 years	+160 basis points

Table 2
**PGE Estimated Bonds Purchase, Expenses and Net
 Proceeds to the Company Resulting From the Sale**

Item	Debt	
	Amount	Per \$100
1. Face value or principal amount	\$275,000,000	\$100.00
2. Plus premium or less discount		
3. Gross proceeds	\$275,000,000	\$100.00
4. Underwriters' spread or commission -0.65%	2,750,000	
5. Securities and Exchange Commission registration fee	-	
6. Printing and engraving expenses	30,000	
7. Trustee's charges	30,000	
8. Fees and expenses of independent public accountants	25,000	
9. Rating agency fees	60,000	
10. Blue Sky fees	50,000	
11. Miscellaneous expenses	75,000	
12. Total deductions	\$3,020,000	1.10%
13. Estimated net amount to be realized	\$271,980,000	\$98.90