

**BEFORE THE PUBLIC UTILITY COMMISSION  
OF OREGON**

UF 4237

In the Matter of	)	
	)	
PACIFICORP, dba PACIFIC POWER & LIGHT COMPANY	)	
	)	ORDER
Application for Authority to Issue and Sell or Exchange not more that \$1,500,000,000 of Debt Securities, Enter into Credit Support Arrangements, Enter into Currency Swaps, and Contribute or Sell Additional Debt to Special Purpose Entities.	)	

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

On February 5, 2007, PacifiCorp dba Pacific Power & Light Company (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 authority to: 1) issue and sell or exchange not more than \$1,500,000,000 of debt; 2) enter into credit support arrangements; 3) enter into currency swaps; and 4) contribute or sell additional debt to special-purpose entities. The requested authority will replace the financing authority the Commission authorized in Order No. 05-258. The basis for the request is detailed in Staff's Report, 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 February 27, 2007, the Commission adopted Staff's recommendation and approved PacifiCorp's request.

**ORDER**

IT IS ORDERED that the application of PacifiCorp for the authority to issue up to \$1,500,000,000 of debt securities, enter into credit support agreements, enter into currency swaps, and contribute or sell debt to special purpose entities, is approved, subject to the conditions and reporting requirements specified in Appendix A.

Made, entered, and effective MAR 05 2007.

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.

PUBLIC UTILITY COMMISSION OF OREGON  
STAFF REPORT  
PUBLIC MEETING DATE: February 27, 2007

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

DATE: February 20, 2007

TO: Public Utility Commission

FROM: Ming Peng *mp.* *A* *BAC*

THROUGH: Lee Sparling, Marc Hellman, and Bryan Conway

SUBJECT: PACIFICORP: (Docket No. UF 4237) Application for Authority to Issue and Sell or Exchange not more than \$1,500,000,000 of Debt Securities, Enter into Credit Support Arrangements, Enter into Currency Swaps, and Contribute or Sell Additional 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 Company may not issue debt to its parent (MidAmerican Energy Holdings Company) or its affiliates (Berkshire Hathaway) under the authority in this application.
- 4) 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.
- 5) The interest rates shall be consistent with the parameters specified in the Company's application and detailed in Attachment A.
- 6) 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.

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- 7) For an issuance of subordinated debt to "special purpose entities" (SPE), the Company shall provide full disclosure of all agreements 15 days prior to an issuance.
- 8) The remaining financing authority granted under Order No. 05-258 is withdrawn.
- 9) 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 April 11, 2005, PacifiCorp filed an application pursuant to Oregon Revised Statutes (ORS) 757.415, 757.480, and Oregon Administrative Rule (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 SPE. On May 9, 2005, the commission issued Order No. 05-258 in UF 4215 granting the Company's request.

On February 5, 2007, PacifiCorp filed an application pursuant to Oregon Revised Statutes (ORS) 757.415, 757.480, and Oregon Administrative Rule (OAR) 860-027-0030 for authority to (1) issue and sell or exchange not more than \$1,500,000,000 of debt, (2) enter into credit support arrangements, (3) enter into currency swaps, and (4) contribute or sell additional debt to special-purpose entities.

PacifiCorp represents that its financing requirements include a current-year capital budget of approximately \$1.5 billion, comprised of significant investments to serve customers, including expenditures for renewable resources consistent with acquisition commitments and the refinancing of approximately \$575 million of maturing debt and mandatory redeemable preferred stock over the two-year period.

The requested authority would replace the financing authority the Commission authorized in Order No. 05-258 in Docket No. 4215 (the 2005 Order). In the 2005 Order, the Commission authorized the Company to issue up to \$1.0 billion of securities identical to those covered in the enclosed Application. The Company has issued \$650,000,000 of debt under the Order and has \$350,000,000 of debt that has not been issued. The Company does not anticipate utilizing the remaining authority under the 2005 Order. The Company represents that it is not opposed to the Commission withdrawing the remaining authority granted under Order No. 05-258.

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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 which 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 9 months 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 be required to enter into a letter of credit arrangement with one or more banks or such other agreements or arrangements as may be necessary or appropriate, from time to time, to support its obligation to repay the principal of, the interest on, and the premium (if any) on the debt. The Company estimates that such an arrangement could involve a fee not expected to exceed one percent on the principal amount of the debt.

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

The issuance of debt denominated in a currency other than U.S. dollars, combined with a currency swap, would allow the Company to issue debt in a foreign currency and execute a currency swap to effectively eliminate the currency risk. By issuing in a foreign currency, the Company would attract investors that would not normally be investing in its securities. Issuing securities in a foreign currency becomes attractive when the nominal interest rate charged in the foreign country is significantly lower than the rate in the U.S. or in dollar-denominated securities. To the extent that the cost of executing the currency swap is less than the difference between the nominal interest rate in the foreign country and the dollar-denominated interest rate, issuing debt in a foreign currency and executing a currency swap provides a lower total cost of debt. The

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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.

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fees for a foreign currency offering are expected to approximate two percent of the principal amount sold.

### **Subordinated Debt**

Subordinated debt is debt subordinated to other debt of the Company. The Company may issue the subordinated debt (a) directly to investors, as in the issuance and sale of its 8 3/8% Junior Subordinated Deferrable Interest Debentures, Series A, pursuant to Docket UF 4098, (b) in exchange for its outstanding securities, as in the issuance of its 8.55% Junior Subordinated Deferrable Interest Debentures, Series B, pursuant to Docket UF 4126, or (c) to a SPE in support of the preferred securities of the SPE, as in the issuance and sale of its 8 1/4% Junior Subordinated Deferrable Interest Debentures, Series C, pursuant to Docket UF 4140, and its 7.70% Junior Subordinated Debentures Series D, pursuant to Docket UF 4151.

### **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	(P) Baa2	n/a

### **Fees and Expenses**

Other than for technical services, the only fees payable by the Company will be fees and expenses to the underwriters and agents (including arrangement fees for currency swaps). Subject to final negotiations, PacifiCorp represents that the fee is not expected to exceed 3.0 percent of the aggregate principal amount of the Debt if the Debt is issued overseas. If issued domestically, the fee is not expected to exceed 1.0 percent of the aggregate principal amount of the Debt. If subordinated debt is issued, the fee is not expected to exceed 3.15 percent of the aggregate principal amount of the Debt. This request appears reasonable.

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 placed directly to investors with or without the use of agents. The interest rates might be fixed or floating. PacifiCorp represents that 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, the maximum spreads over the respective indices are attached as Table 2.

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**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).

**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 \$1.5 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 contained in Staff's memo.

Attachment

UF 4237 – PPL \$1.5b Debt

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### Attachment A

As provided in the Company's Application, the following maximum total spreads over treasury yields represent alternate limitations from the 9.0 percent 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**

Greater Than or Equal To	Less Than	Maximum Spread Over Benchmark Treasury Yield
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.



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Greater Than or Equal To	Less Than	Maximum Spread Over Benchmark Treasury Yield
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