

**BEFORE THE PUBLIC UTILITY COMMISSION  
OF OREGON**

UF 4245(1)

In the Matter of	)	
	)	
PORTLAND GENERAL ELECTRIC	)	ORDER
COMPANY	)	
	)	
Amended Finance Application.	)	

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

On December 14, 2007, Portland General Electric Company (PGE) filed an application with the Public Utility Commission of Oregon (Commission), pursuant to ORS 757.410(1), ORS 757.415(1) and OAR 860-027-0030, for authority to issue up to \$250 million of First Mortgage Bonds (FMBs). On January 28, 2008, the Commission issued Order No. 08-106, approving PGE's application.

On April 14, 2008, PGE filed a request to amend Order No. 08-106 to require that any FMBs issued under this authorization fall within newly updated maximum credit spreads as specified in Table 1 of Attachment A (to Appendix A) for given maturities or, should credit spreads exceed those specified in Table 1, within a maximum all-in rate of 8.00%. The basis for the current request is detailed in Staff's recommendation memo, attached as Appendix A.

Based on a review of PGE's request and the Commission's records, the Commission finds that this request satisfies applicable statutes and administrative rules. At its public meeting on May 6, 2008, the Commission adopted Staff's recommendation and approved PGE's current request, with the conditions and reporting requirements incorporated as Appendix A.

**ORDER**

IT IS ORDERED that the request of Portland General Electric Company for the amendment of Order No. 08-106 is approved, subject to the conditions and reporting requirements specified in Appendix A.

Made, entered, and effective           MAY 14 2008          .

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. CA7

**PUBLIC UTILITY COMMISSION OF OREGON  
STAFF REPORT  
PUBLIC MEETING DATE: May 6, 2008**

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

DATE: April 28, 2008

TO: Public Utility Commission

FROM: Steve Storm *SS*

THROUGH: *LS* Lee Sparling, *A* Marc Hellman, and *BAC* Bryan Conway

SUBJECT: PORTLAND GENERAL ELECTRIC: (Docket No. UF 4245(1)) Requests amendment to Order No. 08-106 in UF 4245.

**STAFF RECOMMENDATION:**

The Commission should approve Portland General Electric's (PGE or Company) request for an amendment to Order No. 08-106 in UF 4245 subject to the following conditions and reporting requirements:

- 1) Should the Company issue First Mortgage Bonds (FMBs or Bonds) having an interest rate exceeding the relevant maximum spread over Treasuries (as in Table 1 of Attachment A), but falling below the all-in rate,<sup>1</sup> the Company shall provide a post-issuance report to the Commission within ten business days. This report shall describe the prevailing market conditions for the Company's debt, explain the reasons for the high level of spreads over Treasuries relative to the all-in rate, and detail any steps taken by the Company to minimize the overall cost of the issuance.
- 2) All conditions and reporting requirements associated with Order No. 08-106 continue to apply, except where expressly modified within the amended order.

<sup>1</sup> The terms "all-in rate" and "all-in cost" used here are defined as including all associated issuance expenses, the coupon rate, and any discount from par value at issuance. Technically, it is the percentage Internal Rate of Return (IRR) when all costs, such as any Original Issue Discount (OID), floatation, and insurance costs, as well as the actual cash flows of the security, are included. See page 747 of "Futures, Options, and Swaps," Fifth Edition; by Robert W. Kolb and James A. Overdahl; Blackwell Publishing, Ltd; 2007.

UF 4245(1)  
April 28, 2008  
Page 2

**DISCUSSION:**

The Commission approved PGE's application for authority to issue up to \$250,000,000 of first mortgage bonds (FMBs) in UF 4245 Order No. 08-106 entered on January 28, 2008. Since that time U.S. Treasury Rates have fallen, but credit spreads over U.S. Treasury securities for prospective PGE bonds have increased such that current spread estimates now exceed many of the maximum authorized spreads as set forth in Table 1 of Appendix A of Order No. 08-106.

In this filing, PGE requests Order No. 08-106 be amended, to now require that any FMBs issued under this authorization fall within newly updated maximum credit spreads as specified in Table 1 of Attachment A for given maturities or, should credit spreads exceed those specified in Table 1, within a maximum all-in rate of 8.00%.

Under the current credit environment, focusing on credit spreads alone may not be sufficient, since high spreads may be offset by equally low Treasury rates, resulting in moderate to low coupon rates. Since the all-in cost represents the bottom-line borrowing cost to the Company and its customers, it is reasonable under current conditions to provide an alternative condition to the traditional spread table included in most utility financing dockets. In the event the Company issues Bonds hereunder which exceed the designated spreads over Treasuries, but fall below the designated all-in rate, the Company will provide a post-issuance report to the Commission describing the prevailing market conditions, explaining the reasons for the high level of spreads over Treasuries relative to the all-in rate for the Bonds, and discussing actions taken by the Company to minimize the all-in rate for the Bonds.

As a numerical example, consider the hypothetical situation where PGE issues \$250 million in 30-year FMBs at par having a coupon rate of 7.7%, which is 330 basis points (bps) over the benchmark U.S. Treasury coupon rate of 4.4%. Issuance and other associated costs total \$2.4 million and interest is paid semiannually. The all-in cost of this hypothetical bond issuance is calculated to be 7.783%. In this example the coupon rate of the FMBs exceeds the maximum credit spread of 310 bps for 30-year securities per Table 1 of Appendix A, but falls within the all-in cost maximum of 8.00%. Therefore PGE could issue the FMBs and be in compliance with the proposed amendment to Order No. 08-106.

UF 4245(1)  
April 28, 2008  
Page 3

**PROPOSED COMMISSION MOTION:**

Commission Order No. 08-106 be amended by inclusion of Staff's memorandum dated April 28, 2008; which specifies a maximum all-in cost of 8.00% should PGE's bond issuances authorized in Order No. 08-106 exceed the relevant maximum credit spreads specified in Staff's memorandum.

Attachment

PGE UF 4245(1)

UF 4245(1)  
 April 28, 2008  
 Page 4

## Attachment A

### Interest rates:

The interest rate on the First Mortgage Bonds will be determined at the time of issuance unless the FMBs have the delayed settlement feature (discussed in Appendix A of Order 08-106), in which case the interest rate will be determined on the date PGE and FMB purchasers enter into a binding agreement for the purchase and sale of the FMBs.

**Table 1**

#### Maximum Spread over Treasuries

Term Greater Than or Equal To	And Equal to Or Less Than	Maximum Spread Over Benchmark Treasury Yield
3 years	9 years	+ 270 basis points
10 years	14 years	+ 295 basis points
15 years	19 years	+ 300 basis points
20 years	24 years	+ 305 basis points
25 years	35 years	+ 310 basis points