

**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON**

UF 4250

In the Matter of)	
)	
PACIFICORP, dba PACIFIC POWER)	ORDER
)	
Finance Application Pursuant to)	
OAR 860-027-0030.)	

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

On June 27, 2008, PacifiCorp dba Pacific Power, filed an application with the Public Utility Commission of Oregon (Commission), pursuant to ORS 757.405, ORS 757.410(1), ORS 757.415 and OAR 860-027-0030, for authority to: 1) borrow the proceeds of not more than \$300,345,000 of Pollution Control Revenue Refunding Bonds; 2) borrow the proceeds of not more than \$150,000,000 of Pollution Control Revenue Bonds; 3) enter into such agreements or arrangements with the Refunding Counties and New Money Issuers and with other entities as may be reasonably necessary to effect the borrowings and to provide credit enhancement for the Refunding Bonds and the New Money Bonds, including the issuance of the Company's First Mortgage and Collateral Trust Bonds as collateral; and 4) replace or modify from time-to-time the credit enhancement arrangements supporting the Refunding Bonds or the New Money Bonds. 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 July 29, 2008, the Commission adopted Staff's recommendation and approved Pacific Power's request.

ORDER

IT IS ORDERED that the application of Pacific Power for the authority to borrow the proceeds of not more than \$450,345,000 of Pollution Control Revenue Bonds; enter into agreements or arrangements to effect the borrowings and to provide credit enhancement for the Bonds, including issuance of Pacific Power's first mortgage bonds as collateral; and replace or modify the credit enhancement arrangements supporting the Bonds, is approved, subject to the conditions and reporting requirements specified in Appendix A.

Made, entered, and effective JUL 29 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.

**PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: July 29, 2008**

REGULAR _____ CONSENT X EFFECTIVE DATE _____ N/A _____

DATE: July 21, 2008

TO: Public Utility Commission

FROM: Steve Storm *SAS*

THROUGH: *lis* Lee Sparling and Marc Hellman *MH*

SUBJECT: PACIFICORP: (Docket No. UF 4250) Application for authority to borrow the proceeds of not more than \$450,345,000 of Pollution Control Revenue Bonds; enter into agreements or arrangements to effect the borrowings and to provide credit enhancement for the Bonds, including issuance of First Mortgage and Collateral Trust Bonds; and replace or modify the credit enhancement arrangements supporting the Bonds.

STAFF RECOMMENDATION:

The Commission should approve PacifiCorp's (PacifiCorp or Company) application subject to the following conditions and reporting requirements:

- 1) The total of borrowings under this authority shall not exceed a total of \$450,345,000.
- 2) The Company may enter into one or more agreements with unrelated third parties, such as commercial banks or insurance companies, to provide further assurance to the purchasers of the Pollution Control Revenue Bonds (PCR Bonds, or Bonds) that the principal, the interest, and the premium (if any) on the Bonds will be paid on a timely basis. These arrangements may involve the issuance of the Company's First Mortgage and Collateral Trust Bonds¹ (FMBs) as collateral for the Bonds in an amount not greater than the aggregate principal amount of the Bonds.

¹ "First Mortgage and Collateral Trust Bonds" are the title of PacifiCorp's first mortgage bonds (FMBs). This is distinct from the definition of a Collateral Trust Bond, which is a bond secured by a financial asset—such as stock or other bonds—that is deposited and held by a trustee for the holders of the bond. In this situation, PacifiCorp's FMBs would be securing PacifiCorp's obligations in regards to the PCR Bonds; i.e., that the principal, the interest, and the premium (if any) on the Bonds will be paid on a timely basis.

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- 3) Any issuance of FMBs under this authority is limited to issuances for the purpose of providing collateral for the authorized borrowings.
- 4) Any remaining financing authority granted under Order No. 95-518 is withdrawn.
- 5) The Company shall demonstrate that any early refunding of debt is cost-effective.
- 6) The Company may not issue debt to its parent (MidAmerican Energy Holdings Company²) or to its affiliates (e.g., to Berkshire Hathaway).
- 7) The authorization is to remain in effect as long as the Company maintains senior secured debt ratings no lower than BBB-/Baa3 (i.e., "investment-grade") from Standard & Poor's and Moody's Investors' Service, Inc., respectively.
- 8) The Company shall file the customary Report of Securities Issued and Disposition of Net Proceeds statements as soon as possible after each issuance and sale. This report is to include the total value, in U.S. Dollars, of the issuance; per unit price(s); total expenses and net proceeds of the issuance; and interest costs and credit ratings.
- 9) The Commission will reserve judgment on the reasonableness for ratemaking purposes of the Company's financing activities; capital costs; capital structure; and the commissions and expenses incurred for security issuances. The Company will be required in its next rate proceeding to show that its financing activities; capital costs, including embedded expenses; and capital structure are just and reasonable.

DISCUSSION:

PacifiCorp filed an application June 27, 2008, pursuant to ORS 757.405, 757.410(1), 757.415, and OAR 860-027-0030, for authority to (1) borrow the proceeds of not more than \$300,345,000 of Pollution Control Revenue Refunding Bonds³ ("Refunding Bonds") to be issued by the Counties of Emery, Utah, Carbon, Utah, Lincoln, Wyoming, Sweetwater, Wyoming, Converse, Wyoming, and Moffat, Colorado ("Refunding

² PacifiCorp is an indirect subsidiary of MidAmerican Energy Holdings Company (MEHC). MEHC is a consolidated subsidiary of Berkshire Hathaway Inc. (Berkshire Hathaway). As of Berkshire Hathaway's 10-Q filing for the quarterly period ending March 31, 2008, Berkshire Hathaway owned 88% of MEHC.

³ Pollution Control Revenue Bonds ("PCR Bonds") are municipal revenue bonds in which debt service is secured by payments from a private firm using pollution control equipment that the bonds were used to finance. Thus, the guarantee of repayment is made by the private firm rather than by the municipal issuer.

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Counties"); (2) borrow the proceeds of not more than \$150,000,000 of Pollution Control Revenue Bonds ("New Money Bonds") to be issued by one or more of the following Counties or municipalities: Emery, Utah, Converse, Wyoming, Lincoln, Wyoming, Sweetwater, Wyoming, City of Gillette, Wyoming, Navajo County, Arizona, and Routt County, Colorado ("New Money Issuers"); (3) enter into such agreements or arrangements with the Refunding Counties and New Money Issuers and with other entities as may be reasonably necessary to effect the borrowings and to provide credit enhancement for the Refunding Bonds and the New Money Bonds, including the issuance of the Company's FMBs as collateral;⁴ and (4) replace or modify from time-to-time the credit enhancement arrangements supporting the Refunding Bonds or the New Money Bonds.

The Company represents borrowings will be made in connection with the issuance of Bonds by the Issuers to finance or refinance the cost of certain pollution control, solid waste disposal and sewage facilities at one or more of the following plants: Jim Bridger, Carbon, Cholla, Craig, Dave Johnston, Hayden, Hunter, Huntington, Naughton and Wyodak ("Plants"). These facilities consist principally of systems to remove and dispose of particulates and sulfur dioxide from flue gases and certain solid and sewage wastes. Arizona, Colorado, Utah and Wyoming statutes and the Internal Revenue Code permit local governmental agencies to issue bonds, the interest on which is not subject to federal income taxation for most bondholders, for the purpose of the construction of qualified pollution control equipment and solid and sewage waste facilities. The Issuers will be asked to adopt appropriate resolutions providing for the issuance of the appropriate series of the Bonds.

The Company has at least two options in regards to providing credit support for the Bonds. The Company could enter into agreements with commercial banks or insurance companies; or, the Company could issue its FMBs as collateral for repayment of the Bonds, either alone or in conjunction with bank or insurance company credit support.

PacifiCorp represents that due to recent market developments, there has been at times a significant reduction in market liquidity for certain insured variable rate Pollution Control Revenue Bonds and that interest rates on these bonds have risen. The Company is seeking authority to refinance existing series of insured variable rate pollution control bonds in the event that interest rates do not return to more normal levels.

⁴ The primary point regarding the Company's issuance of FMBs to be used as collateral under this authority is that such issuances are not a public offering; i.e., the issued FMBs will be held by a Trustee on the behalf of the purchasers of the PCR bonds. PacifiCorp represented, in a telephone conversation with Bruce Williams 7/21/08, that these FMBs will have the same terms and conditions as the underlying PCR bonds. This collateral mechanism is similar to that approved in Commission Order No. 95-518 (see page 2 of the Order) in Docket No. 4128.

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Additionally, the Company is requesting authority to refinance up to four series of outstanding fixed rate Pollution Control Revenue Bonds issued to finance, or refinance, the cost of certain pollution control, solid waste disposal and sewage facilities at the Company's Hunter, Huntington, Naughton electric generating plants and the Cottonwood facility. Although the cost to the Company of these bonds has not been directly impacted by these recent market developments, the Company may be able to economically refinance these obligations depending on levels of interest rates and market conditions.

The Company expects any such refinancing will achieve interest savings, including the effect of the amortization of the redemption premium, if any, and the unamortized issuance expenses on the Prior Bonds, as a result of the refinancings.

Further, the Company is undertaking significant capital expenditures related to pollution control and solid waste disposal facilities at certain electric generating plants. It may be possible to finance a portion of these expenditures through new issuances of Pollution Control Revenue Bonds resulting in interest rate savings as compared to other financing alternatives. In order to complete a new issuance of Pollution Control Revenue Bonds it will be necessary to obtain an allocation of the "volume cap"⁵ from the state in which the respective Issuer is located. The Company's success in obtaining sufficient volume cap for New Money Bonds will depend on the number of competing applicants in each state. The Company is requesting authority at this time in order to be able to proceed with a new money financing should volume cap be available and a tax-exempt financing be cost effective.

The Company agrees that with approval of the current application the authorizations granted under Commission Order 95-518 in Docket No. UF 4128 are withdrawn.

Fees and Expenses

Expenses payable by the Company include fees and expenses to the underwriters, which are expected to be 1.25% of the principal amount of the Bonds. An annual remarketing fee for variable rate bonds is not expected to exceed 0.125 percent of the principal amount of the Bonds.⁶ PacifiCorp represents that these fees are reasonable given the services provided by the underwriters and remarketing agents and are consistent with the prevailing market's usual and customary fees.

⁵ "Volume Cap" is the amount of tax-exempt financing available for certain types of private companies or developers in a calendar year. Federal law determines project eligibility. A project must obtain an award of Volume Cap before it can have tax-exempt bonds issued.

⁶ This estimate is based upon a fixed rate offering.

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Technical services fees and other expenses associated with the financing are estimated by PacifiCorp to total \$7,900,000.^{7,8} The total costs of the financings are not expected to exceed 3.0 percent of the proceeds.

This request appears reasonable.

Use of Proceeds

PacifiCorp represents the proceeds will be used for the following purposes: the construction, completion, extension or improvement of utility facilities; the improvement or maintenance of service; the discharge or refunding of its obligations; and, refunding the company's treasury expended on utility purposes.

These purposes are consistent with statutory requirements and are permitted under ORS 757.415(1).

PROPOSED COMMISSION MOTION:

The application of PacifiCorp for authority to borrow the proceeds of not more than \$450,345,000 of Pollution Control Revenue Bonds; enter into agreements or arrangements to effect the borrowings and to provide credit enhancement for the Bonds, including issuance of Pacificorp's first mortgage bonds as collateral; and replace or modify the credit enhancement arrangements supporting the Bonds be approved with Staff's conditions and reporting requirements.

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⁷ Technical services fees and expenses associated with debt issuance include regulatory agency fees, SEC fees, company counsel fees, accounting fees, printing and engraving fees, rating agency fees, and trustee/indenture fees.

⁸ Issuer fees are estimated to be \$6,300,000 of the estimated \$7,900,000 for technical service fees and other expenses associated with the financing. The Company may be required to pay an issuer's fee to the Issuers to compensate them for providing the Company the opportunity to borrow the proceeds of the Bonds. PacifiCorp represents past experience indicates that some Issuers will charge such a fee and that such Issuer fees are not expected to exceed an effective net cost of 0.125 percent per annum of the principal amounts over the life of the Bonds.