

**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON**

UF 4257

In the Matter of)	
)	
PORTLAND GENERAL ELECTRIC)	ORDER
COMPANY)	
)	
Application requesting authority to issue up)	
to \$300 million of First Mortgage Bonds.)	

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

On February 4, 2009, Portland General Electric Company (PGE or Company) 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 the authority to issue up to \$300 million in first mortgage bonds.

PGE represents that the purposes for which the bonds are proposed to be issued are 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; or the reimbursement of Company treasury for funds used for the foregoing purposes. A description of the filing and its procedural history is contained in the Staff 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 March 10, 2009, 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 application of Portland General Electric Company for the authority to issue up to \$300 million of first mortgage bonds is approved, subject to the conditions and reporting requirements specified in Appendix A.

Made, entered, and effective MAR 16 2009

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: March 10, 2009

REGULAR _____ CONSENT X EFFECTIVE DATE _____ N/A

DATE: March 3, 2009

TO: Public Utility Commission

FROM: Jorge Ordonez JDO

THROUGH: *li* Lee Sparling, *✓* Marc Hellman, and *JB* Steve Storm

SUBJECT: PORTLAND GENERAL ELECTRIC: (Docket No. UF 4257) Application for authority to issue up to \$300,000,000 of first mortgage bonds.

STAFF RECOMMENDATION:

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

- 1) Securities issued under this authority shall not exceed a total of \$300,000,000 or, if the securities are issued at an original issue discount, such greater amount as shall result in an aggregate offering price of not more than \$300,000,000 (or its equivalent amount inclusive of any securities issued under this authority in foreign currencies).
- 2) The Company shall demonstrate the cost-effectiveness of any early refunding of existing securities and that any put or call provision or required sinking fund placed on new issuances is cost-effective.
- 3) The Company may not issue debt to affiliates without separate, prior authorization.
- 4) 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, in U.S. Dollars, the total value of the issuance; per unit price(s); total expenses and net proceeds of the issuance; and interest costs and credit ratings. Should any issued securities be designated as medium-term notes, the Company shall file a Pricing Supplement with the Commission providing a description of the terms and conditions of each issuance of the medium-term notes. This report shall also be used to notify the Commission as

Docket Number UF 4257
March 3, 2009
Page 2

to any replacement, renewal, or extension of sale of each debt security. The fees, interest rates, and expenses associated with any debt securities issued under this authority shall be cost-effective and consistent with competitive market prices.

- 5) The Commission reserves judgment on the reasonableness for ratemaking purposes of the Company's capital costs, capital structure and the commissions and expenses incurred for security issuances. The Company has the burden of proof to demonstrate that its financing activities; capital costs, including embedded expenses; and capital structure are just and reasonable
- 6) Subsequent to a Commission Order pursuant to this application, PGE may issue the debt securities as set forth in PGE's filing without further Commission approval if all-in rate¹ spreads do not exceed limits set forth in column C of Table 1 in Attachment A. Alternatively, should all-in rate spreads exceed the relevant maximum spread over Treasuries limitation as set forth in column C of Table 1 in Attachment A, the Company may issue debt securities without further Commission approval if the all-in rate does not exceed 9.0 percent. Should issuance be under this alternative, the Company shall provide a post-issuance report to the Commission within ten business days, with the report describing the prevailing market conditions for the Company's debt, explaining the reasons for the high level of spreads over Treasuries relative to the all-in rate, and detailing any steps taken by the Company to minimize the overall cost of the issuance.
- 7) A Commission approval in this docket shall remove any remaining authority granted under Order No. 08-106 as amended by Order No. 08-250 in Docket No. UF 4245, of which authority the Company has represented \$70 million remained as of February 4, 2009.
- 8) 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.

¹ 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.

Docket Number UF 4257
March 3, 2009
Page 3

DISCUSSION:

The Commission previously granted authorization to PGE to issue up to \$250 million in first mortgage bonds (FMBs or Bonds or Debt Securities) in Order No. 08-106 as amended by Order No. 08-250 (UF 4245). The Company represents it has, under these Orders, previously issued FMBs in an accumulated amount of \$180 million prior to the date of the current application.

On February 4, 2009, PGE filed an application with the Public Utility Commission of Oregon (Commission), pursuant to Oregon Revised Statutes (ORS) 757.410(1), 757.415(1)(a) through (e), and Oregon Administrative Rules (OAR) 860-027-0030, for the authority to issue up to \$300 million in First Mortgage Bonds (FMBs). With approval of this application, PGE agrees the remaining authorization of \$70 million granted under Order No. 08-106, as amended by Order No. 08-250 (UF 4245), is terminated.

Use of Proceeds

PGE represents that the purposes for which the Bonds are proposed to be issued are 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; or the reimbursement of Company treasury for funds used for the foregoing purposes. The Company represents that these purposes are compatible with the public interest; necessary and appropriate for and consistent with the proper performance by the Company of service as a public utility; will not impair the Company's ability to perform that service; and are reasonably appropriate for such purposes.²

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

Pricing

The FMBs may be priced with a delayed settlement feature allowing PGE to execute a binding purchase and sale agreement establishing the interest rate and other terms of the sale, but postpone the actual sale of the FMBs and receipt of funds to a date of the Company's choice up to one year later. This delayed settlement feature would allow

² See pages 8 and 9 of PGE's application.

Docket Number UF 4257
March 3, 2009
Page 4

PGE to lock-in interest rates but defer the sale of the FMBs to correspond with the Company's cash needs.³

PGE represents that the pricing of FMBs will fall within a maximum spread over the applicable Treasury securities for various maturities as listed in Table 1 of Attachment A.⁴

Portland General Electric's Credit Ratings

The Company represents that its outstanding First Mortgage Bonds are rated Baa1 by Moody's Investors Service and A by Standard & Poor's Ratings Services.⁵

Fees and Expenses

The First Mortgage Bonds may be sold on a negotiated or competitive basis. The Bonds may be sold directly to a limited number of purchasers or to a single purchaser. The underwriters/agents will receive as compensation (assuming a public offering) the difference between the price at which they purchase the Bonds from the applicant and the price at which the bonds are sold by the underwriters/agents to the public. If the bonds are sold on a private basis, the underwriters/agents will receive the usual and customary amount prevailing for such sales and will not exceed 0.875 percent of the aggregate principal amount of the Bonds, with the final amount to be negotiated by PGE.⁶

Technical services fees and expenses associated with Bond issuance are estimated by PGE to total \$230,000.⁷

These expenses appear reasonable. Staff will conduct an additional review pursuant to Condition 5 on a post-issuance basis.

The Company provided information on agents' commissions as a percentage of the principal amount of Bonds issued.⁸ While Staff takes no position as to the

³ See pages 5 and 6 of PGE's application.

⁴ See page 7 of PGE's application.

⁵ See page 6 of PGE's application.

⁶ See page 8 of PGE's application.

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

Docket Number UF 4257

March 3, 2009

Page 5

reasonableness of the estimated level of these expenses, these estimates are used in calculating Staff's all-in rate spread values, as demonstrated in column C of Table 1 in Attachment A.

Staff wishes to clarify the order of consideration in determining whether an issuance falls within cost/pricing limitations. The first consideration is: "Will the debt securities be issued having an all-in rate within the maximum spread over the yield of the relevant benchmark Treasury security, as provided in column C of Table 1 in Attachment A?" Should this be the case, the limitation on pricing is considered to be met.

Should this not be the case, a second consideration is addressed: "Will the debt securities be issued having an all-in rate less than or equal to 9.0 percent?" If the second consideration is met, then the limitation on pricing is considered to be met. In other words, the pricing limitation is considered met if, first, the applicable all-in rate spread limitation is met, or alternatively, if the spread limitation is not met while the all-in rate limitation is met.

Staff established the maximum all-in rate spread⁹ over the yield of the relevant benchmark Treasury security by calculating all-in rates for five-, 10-, and 20-year maturities¹⁰ based on information supplied by the Company. Subtracting the constant maturity Treasury yields on February 26, 2009, from the calculated all-in rate provided the all-in rate spread for each of the three maturities. An all-in rate spread weighted average of the three maturities was calculated, with the five- and 10-year maturities receiving weightings of 25 percent each and the 20-year maturity receiving a weighting of 50 percent. This calculation provided a spread of 530 basis points (bps). Staff then adjusted this downward to 450 bps to partially account for the February 26, 2009, 428 bps difference between the yield on Moody's seasoned Baa bonds (8.21%) and the yield on the constant maturity 20-year Treasury (3.93%).

Under the current credit environment, focusing on credit (interest rate) spreads alone may not be sufficient, since high spreads may be partially offset by relatively low Treasury yields. Since the all-in rate represents the inclusive borrowing costs to the Company and potentially to its customers, it is reasonable under current conditions to provide an alternative to the traditional spread table included in most utility financing dockets. The provided alternative is intended to afford the Company additional flexibility

⁸ See page 8 of PGE's application.

⁹ The discussion immediately following applies to the all-in rate spreads in column C of Table 1 in Attachment A.

¹⁰ The 20-year maturity was used instead of the 30-year due to the current inversion of the 30-year; i.e., the February 26, 2009, 20-year Treasury's yield was 3.93%, while that of the 30-year was 3.66%.

Docket Number UF 4257
March 3, 2009
Page 6

in issuing debt in the current financial environment, while continuing to provide protections to customers.

As a numerical example, consider the hypothetical situation where PGE issues \$300 million of 10-year FMBs as medium-term notes (MTNs) at par having a coupon rate of 8.40 percent, which is 542 bps over the recent benchmark U.S. Treasury yield of 2.98 percent.¹¹ Issuance and other associated costs total \$2,855,000, and interest is paid semiannually. The all-in cost of this hypothetical bond issuance is calculated to be 8.543 percent, which is 556 bps over the benchmark Treasury yield. In this example the all-in rate spread of the FMBs (556 bps) exceeds the maximum all-in rate spread of 450 bps for 10-year securities per Table 1. However, the all-in rate is 8.543 percent, which is less than the all-in rate "hard cap" of 9.0 percent. Therefore PGE could issue the FMBs and be in compliance with the all-in rate limitation.

Based on Staff's review, this application appears reasonable in the existing circumstances and meets the appropriate statutory requirements.

PROPOSED COMMISSION MOTION:

The application of Portland General Electric to issue up to \$300 million of first mortgage bonds be approved with Staff's conditions and reporting requirements.

Attachment

PGE UF 4257

¹¹ This was the yield of the constant maturity 10-year Treasury on February 26, 2009.

Docket Number UF 4257
 March 3, 2009
 Page 7

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 above), 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 Spreads over Benchmark U.S. Treasury Yield¹²
for First Mortgage Bonds

<u>Maturity</u>		All-in Rate
Equal to or Greater Than	Less Than	
(A)	(B)	(C)
1 year	10 years	+ 450 bps
10 years	15 years	+ 450 bps
15 years	20 years	+ 450 bps
20 years	25 years	+ 450 bps
25 years	35 years	+ 450 bps

¹² The Benchmark U.S. Treasury Yield, with respect to any of the debt securities' maturity range, means the yield to maturity of that issue of direct obligations of the United States which, out of all actively traded issues of such obligations with a remaining term to maturity within such debt securities' maturity range, is generally considered by dealers in such obligations to be the standard for such obligations. With respect to the issuance of any of the debt securities', the Benchmark U.S. Treasury Yield shall be determined as of the time the commitment to purchase such debt securities' is received by the Company or its agents.