ENTERED 03/26/09

BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UF 4158(1)

In the Matter of	)	
	)	
PORTLAND GENERAL ELECTRIC	)	
COMPANY	)	ORDER
	)	
Application for authority to remarket three	)	
series of tax-exempt pollution control bonds	)	
totaling $142.4 million	)	

DISPOSITION: APPLICATION APPROVED WITH CONDITIONS AND REPORTING REQUIREMENTS

On April 7, 2003, in Order No. 03-207, as amended by Order No. 03-245, the Public Utility Commission of Oregon (Commission) authorized Portland General Electric Company (PGE of Company) to remarket three series of its tax-exempt pollution control revenue bonds totaling $142.4 million, with the condition that the bonds shall not be remarketed with a "Term Interest Rate Period greater than 7 years or at a Term Interest Rate greater than 7.85%."

PGE filed a Supplemental Finance Application with the Commission on February 5, 2009, requesting authority to remarket the three series of Bonds on May 1, 2009, or such later day as the Company deems appropriate, for a term not to exceed the final maturity date of May 1, 2033. The Company agrees that the all-in cost will not exceed 7.85%. 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 March 24, 2009, the Commission adopted Staff's recommendation and approved PGE's current request.

ORDER

IT IS ORDERED that the application of Portland General Electric Company to remarket up to $142.4 million of Pollution Control Revenue Bonds is approved with Staff's conditions and reporting requirements, as further specified in Appendix A attached hereto.

Made, entered, and effective MAR 2 6 2009.

BY THE COMMISSION:

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. CA5

PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: March 24, 2009

REGULAR ____ **CONSENT** X **EFFECTIVE DATE** N/A

DATE: March 17, 2009

TO: Public Utility Commission

FROM: Jorge Ordonez JDO

THROUGH: Lee Sparling, Marc Hellman, and Steve Storm

SUBJECT: PORTLAND GENERAL ELECTRIC: (Docket No. UF 4158(1)) Application for authority to remarket three series of tax-exempt pollution control bonds totaling $142.4 million.

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 or remarketed under this authority shall not exceed a total of $142.4 million, or, if the securities are issued or remarketed at an original issue discount (OID), such greater amount as shall result in an aggregate offering price of not more than $142.4 million (or its equivalent amount inclusive of any securities issued or remarketed 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 or remarketed issues is cost-effective.

3) The Company may not issue or remarket 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 or remarketing. This report is to include, in U.S. Dollars, the total value of the issuance or remarketing; per unit price(s); total expenses and net proceeds of the issuance or remarketing; and interest costs and credit ratings. Should any issued or remarketed 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 or remarketing of the medium-term notes. This report shall also be used to notify the Commission as to any replacement, renewal, or extension of sale of each debt security. The fees, interest rates, and expenses associated with any debt securities issued or remarketed 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 or remarketings. 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 remarket the Pollution Control Revenue Bonds (PCRBs or Bonds) as set forth in PGE's filing without further Commission approval if all-in rate[1] 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 remarket the PCRBs without further Commission approval if the all-in rate does not exceed 7.2%. Should remarketing 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 remarketing. Neither the all-in rate spread limitation nor the all-in rate cap is to apply should the Bonds be held entirely by the Company.

7) The relevant share of expenses to be included for each specific issuance or remarketing of PCRBs in all-in calculations is the *pro rata* portion of the estimated total issuance or remarketing expenses based upon the principal amount of PCRBs in the specific issuance or remarketing as compared with the $142.4 million total remarketing authorized.

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1 The terms "all-in rate" and "all-in cost" used here are defined as including all associated issuance or remarketing expenses, the coupon rate, and any discount from par value at issuance or remarketing. 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.

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.

9) The Bonds may not be remarketed with maturity dates beyond the May 1, 2033, date contained in the Company's current application.

DISCUSSION:

The Commission, in Order No. 03-207 as amended by Order No. 03-245, authorized PGE on April 7, 2003, to remarket three series of its tax-exempt pollution control revenue bonds totaling $142.4 million, with the condition that the bonds shall not be remarketed with a "Term Interest Rate Period greater than 7 years or at a Term Interest Rate greater than 7.85%."[2]

PGE filed a Supplemental Finance Application with the Public Utility Commission of Oregon on February 5, 2009, requesting authority to remarket the three series of Bonds on May 1, 2009, or such later day as the Company deems appropriate for a term not to exceed the final maturity date of May 1, 2033. The Company agrees that the all-in cost will not exceed 7.85%.

PGE also represents that remarketing the Bonds is part of PGE's 2009 Finance and Investment Plan approved by PGE's Board of Directors and further represents that the tax-exempt bond market typically provides the lowest cost source of funds available to the Company, since the coupons are federally tax-free to investors and thus investors usually require a lower interest rate.

As the Bonds are likely to be held by the Company for some period prior to remarketing, following May 1, 2009, neither the maximum all-in spread limitation nor the alternative maximum "hard cap" all-in rate limitation is to apply while 100 percent of the Bonds are held in such manner; i.e., it is only when the Bonds are actually (externally) remarketed that the all-in limitations are in effect. Staff understands, based on a March 16, 2009, telephone conversation with a Company representative, that two monthly Automated Clearing House (ACH) transactions will occur should the Bonds be held by the Company: one transaction will represent the payment of interest and the other the receipt of interest paid; each of the two transactions by the Company and to the Company.

[2] *See* Order No. 03-245, Appendix A, Page 2 of 2.

Use of Proceeds

PGE represents that proceeds from the Bonds remarketing will be used for one or more of 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; or refunding the Company's treasury for expenditures on utility purposes.

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

Pricing

The company's application did not provide specific details as to the form of the remarketed Bonds, specifying only that the all-in cost will not exceed 7.85%.

Fees and Expenses

In an e-mailed communication from PGE on March 12, 2009, the Company estimated the total cost of remarketing at $1,019,000. While Staff takes no position as to the reasonableness of the estimated level of remarketing expenses, this estimate was used in calculating Staff's all-in rate spread values, as presented in column C of Table 1 in Attachment A.

Staff may conduct an additional review pursuant to Condition 5 on a post-remarketing basis.

Staff wishes to clarify the order of consideration in determining whether a remarketing falls within cost/pricing limitations. The first consideration is: "Will the Bonds be remarketed 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 Bonds be remarketed having an all-in rate less than or equal to 7.2%?" 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 spread[3] over the yield of the relevant benchmark Treasury security by calculating the all-in rate of a 13-year maturity PCRB[4] over an interpolated 13-year Treasury yield of 3.28%.[5] This calculation provided a rounded spread of 300 basis points (bps). Staff used this 300 bps spread as an input into a spread calculation on an all-in basis; i.e., inclusive of remarketing costs. The result of this calculation was then upwardly revised, resulting in the 7.2% all-in rate cap previously mentioned.

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

As a numerical example, consider the hypothetical situation where PGE remarkets $142.4 million of 10-year PCRBs at par having a coupon rate of 6.00%, which is 301 bps over the recent benchmark U.S. Treasury yield of 2.99%.[6] Remarketing and associated costs total $1,019,000, and interest is paid semiannually. The all-in cost of this hypothetical bond remarketing is calculated to be 6.17 percent, which is 318 bps over the benchmark Treasury yield. In this example the all-in rate spread of the PCRBs (318 bps) exceeds the maximum all-in rate spread of 300 bps for 10-year PCRBs per column C of Table 1. However, the all-in rate is 6.17%, which is less than the all-in rate "hard cap" of 7.2%. Therefore PGE could remarket the Bonds and be in compliance with the all-in rate limitation. A remarketing under these hypothetical conditions would require, per Condition 6, that PGE provide a post-issuance report to the Commission

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

[4] Staff used the spread cited in the March 10, 2009, publication The Bond Buyer. The publication is quoted as follows: "In the new-issue market today, Morgan Stanley priced $109.5 million of pollution control revenue refunding bonds for the Maryland Economic Development Corp. The bonds mature in 2022, yielding 6.25%, priced at par. The bonds, which are callable at par in 2019, are rated Baa1 by Moody's Investors Service, BBB-plus by Standard & Poor's, and A by Fitch Ratings." (http://www.bondbuyer.com/article.html?id=20090310FG8CMG32&queryid=1928124479&hitnum=2)

[5] A 13-year Treasury yield of 3.28% was calculated as a simple linear interpolation between a 10-year Treasury yield (2.99%) and a 20-year Treasury yield (3.94%). Both Treasury yields are constant maturity yields for March 10, 2009.

[6] This was the yield of the constant maturity 10-year Treasury on March 10, 2009.

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 overall remarketing costs.

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 remarket up to $142.4 million of Pollution Control Revenue Bonds be approved with Staff's conditions and reporting requirements.

Attachment

PGE UF 4158

Attachment A

Interest rates:

The interest rate(s) on the Pollution Control Revenue Bonds will be determined at the time of remarketing.

Table 1

Maximum Spreads over Benchmark U.S. Treasury Yield[7]

for Pollution Control Revenue Bonds

Maturity Equal to or Greater Than	Less Than	All-in Rate Spread
(A)	(B)	(C)
1 year	10 years	+ 300 bps
10 years	15 years	+ 300 bps
15 years	20 years	+ 300 bps
20 years	25 years	+ 300 bps

[7] The Benchmark U.S. Treasury Yield, with respect to any of the Bonds' maturity range(s), 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 remarketing of any of the Bonds', the Benchmark U.S. Treasury Yield shall be determined as of the time the commitment to purchase such Bonds' is received by the Company or its agents.