ORDER NO. 09-405

ENTERED 10/08/09

BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UF 4259(1)

In the Matter of PORTLAND GENERAL ELECTRIC COMPANY Supplemental financing application to amend Order No. 09-245.	ORDER

DISPOSITION: APPLICATION APPROVED WITH CONDITIONS AND REPORTING REQUIREMENTS

On May 15, 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 $450 million in first mortgage bonds. On June 22, 2009, the Commission approved PGE's request in Order No. 09-245.

On August 20, 2009, PGE filed an application to amend Order No. 09-245. 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 October 6, 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 to amend Order No. 09-245, by inclusion of the conditions and reporting requirements listed in Appendix A, is approved.

Made, entered, and effective OCT 0 8 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.

ITEM NO. CA2

PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: October 6, 2009

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

DATE: September 29, 2009

TO: Public Utility Commission

FROM: Jorge Ordonez JDO

THROUGH: Lee Sparling, Marc Hellman, and Steve Storm

SUBJECT: PORTLAND GENERAL ELECTRIC: (Docket No. UF 4259(1)) Requests amendment to Order No. 09-245 in UF 4259.

STAFF RECOMMENDATION:

The Commission should approve Portland General Electric's (PGE or Company) request for an amendment to Order No. 09-245 in UF 4259 subject to the following conditions and reporting requirements:

1) Subsequent to a Commission Order pursuant to this amended application, PGE may issue First Mortgage Bonds (FMBs) and Unsecured Long-term Bonds (Unsecured Bonds) securities as set forth in PGE's amended filing without further Commission approval if all-in rate[1] spreads do not exceed limits set forth in column C and D 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 or D of Table 1 in Attachment A, the Company may issue debt securities without further Commission approval if the all-in rate does not exceed 6.5 percent[2] for FMBs and 7.0 percent for Unsecured Bonds. 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

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[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.

[2] The 6.5 percent all-in rate "hard cap" replaces the 9.0 percent value in Order No. 09-245.

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.

2) Subsequent to the issuance of Unsecured Bonds as set forth in PGE's amended filing, PGE shall submit within thirty business days a report of issuance of securities, with the report to include an ex-post analysis and evaluation justifying the unsecured debt issuance as opposed to a secured debt offering.

3) All conditions and reporting requirements associated with Order No. 09-245 continue to apply, except where expressly modified within the amended Order.

DISCUSSION:

On June 22, 2009, the Commission approved PGE's application for authority to issue up to $450,000,000 of FMBs in UF 4259 Order No. 09-245.

On August 20, 2009, PGE filed a Supplemental Finance Application (Supplemental Application) which seeks to amend Order No. 09-245 to include the ability for PGE to issue either Unsecured Bonds or FMBs in a total amount not to exceed the $ 450 million amount authorized in the original order. PGE notes that other than the one proposed change to include unsecured bonds, there are no other changes requested.

In PGE's Supplemental Application, the Company notes that it has been issuing primarily FMBs in recent years to meet its long-term debt needs. Since the PGE mortgage that governs the issuance of new FMBs has certain earnings and property tests required for issuance, there could be times that PGE does not have the ability to issue FMBs.

The Company also notes that it may issue Unsecured Bonds to preserve room under these tests for future needs. In addition, PGE has $186 million of long-term debt maturing in 2010, all of which is unsecured debt. Replacing that unsecured debt with newly issued unsecured debt would maintain the debt composition of the current capital structure.

PGE notes that while the Unsecured Bonds are typically higher cost debt compared to FMBs, the current market environment does not require as much premium as in the recent past. PGE has been advised by its banks that the incremental cost is currently 20-50 basis points in additional coupon. Thus, if a new FMB were to have a coupon of 5.00%, an Unsecured Bond with similar maturity would have a coupon of approximately 5.20% to 5.50%.

Since unsecured debt is more expensive than secured debt, any portion of the $450 million requested by PGE which is issued as unsecured debt is to be justified *a posteriori* to the transaction.

Since PGE filed its initial application for the issuance of FMBs, U.S. Treasury rates are approximately at the same levels while credit spreads have substantially declined. Therefore Staff has adjusted the maximum all-in rate spread and price limitation.

Staff has adjusted the spread for FMBs to 220 bps which has been rounded from the difference between the yield on Moody's seasoned Baa corporate bonds (6.56%) and the yield on the constant maturity 30-year Treasury (4.33%) on August 17, 2009.

Staff also adjusted the price limitation for FMBs to 6.50% for FMBs and 7.00% for Unsecured Bonds. The provided alternative is intended to afford the Company additional flexibility in issuing debt in the current financial environment, while continuing to provide protections to customers.

PROPOSED COMMISSION MOTION:

Commission Order No. 09-245 be amended by inclusion of conditions on Staff's Report dated September 29, 2009.

Attachment

PGE UF 4259(1)

Attachment A

Interest rates:

The interest rate on the first mortgage bonds or unsecured long-term debt will be determined at the time of issuance unless the securities have a delayed settlement feature (discussed above), in which case the interest rate will be determined on the date PGE and purchasers of the Company's FMBs and Unsecured Bonds enter into a binding agreement for the purchase and sale of the securities.

Table 1

Maximum Spreads over Benchmark U.S. Treasury Yield[3]

for First Mortgage Bonds and Unsecured Long-term bonds

Maturity		All-in Rate	
≥	≤	First Mortgage Bonds (FMB)	Unsecured Long-term Bonds
(A)	(B)	(C)	(D)
1 year	10 years	+ 220 bps	+ 270 bps
10 years	15 years	+ 220 bps	+ 270 bps
15 years	20 years	+ 220 bps	+ 270 bps
20 years	25 years	+ 220 bps	+ 270 bps
25 years	35 years	+ 220 bps	+ 270 bps

[3] 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.