BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UF 4262

In the Matter of PACIFICORP, dba PACIFIC POWER Application for authority to issue and sell or exchange not more than $2,000,000,000 of debt securities; enter into credit support arrangements; and enter into currency swaps.	ORDER

DISPOSITION: APPLICATION APPROVED WITH CONDITIONS AND REPORTING REQUIREMENTS

On January 14, 2010, PacifiCorp, dba Pacific Power (Pacific Power or Company) filed an application with the Public Utility Commission of Oregon (Commission), pursuant to ORS 757.410(1), ORS 757.415 and OAR 860-027-0030, requesting authorization to issue and sell or exchange not more than $2,000,000,000 of debt securities, enter into credit support arrangements, and enter into currency swaps.

Pacific Power represents that $1.8 billion in debt had been issued under Order No. 08-013, in UF 4243, as of its January 14, 2010 filing. The Company agrees that, with approval of the current application, the authority to issue any additional debt under UF 4243 is withdrawn. The details of the filing and Staff's recommendation are described 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 February 23, 2010, the Commission adopted Staff's recommendation and approved Pacific Power's current request, with the conditions and reporting requirements incorporated as Appendix A.

ORDER

IT IS ORDERED that the application of PacifiCorp, dba Pacific Power, to issue and sell or exchange up to $2.0 billion of debt securities, enter into credit support agreements, and enter into currency swaps is approved, subject to the conditions and reporting requirements specified in Appendix A.

Made, entered, and effective FEB 23 2010.

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. CA16

PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: February 23, 2010

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

DATE: February 16, 2010.

TO: Public Utility Commission

FROM: Jorge Ordonez JDO

THROUGH: Lee Sparling, Marc Hellman, and Steve Storm

SUBJECT: PACIFICORP: (Docket No. UF 4262) Application for authority to issue and sell or exchange not more than $2,000,000,000 of debt securities; enter into credit support arrangements; and enter into currency swaps.

STAFF RECOMMENDATION:

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

1) Any remaining financing authority granted under Order No. 08-013 of Docket No. UF 4243 is withdrawn.

2) The total of securities issued under this authority shall not exceed a total of $2,000,000,000 or, if the Debt is issued at an original issue discount, such greater amount as shall result in an aggregate offering price of not more than $2,000,000,000 (or its equivalent amount inclusive of any securities issued under this authority in foreign currencies).

3) The authorization applies to PacifiCorp's request, with the exception of the issuance of Subordinated Debt,[1] for which the Company shall seek authorization in a separate finance application.

[1] The Company provides specific examples of past issuances of Subordinated Debt on page 14 of the application; i.e., "[t]he Company may issue the subordinated debt (a) directly to investors, as in the issuance and sale of its 8 3/8 percent Junior Subordinated Deferrable Interest Debentures, Series A, pursuant to the orders issued in Docket No. UF 4098; (b) in exchange for its outstanding securities, as in the issuance of its 8.55 percent Junior Subordinated Deferrable Interest Debentures, Series B, pursuant to Order 95-353, Docket No. UF 4126; or (c) to an SPE in support of the preferred securities of the SPE, as in the issuance and sale of its 8 1/4 percent Junior Subordinated Deferrable Interest Debentures, Series C, pursuant to the orders issued in Docket No. UF 4140, and its 7.70 percent Junior Subordinated Debentures Series D, pursuant to the orders issued in Docket No. UF 4151."

4) Subsequent to a Commission Order pursuant to this application, PacifiCorp may issue secured debt and other debt, except Credit Support Arrangements,[2] without further Commission approval if all-in rate[3] spreads do not exceed limits set forth in column (4) of Table 1 in Attachment A for secured debt and column (4) of Table 2 for other debt. Alternatively, should all-in rate spreads exceed the relevant maximum spread over U.S. Treasury Yields (Treasuries) limitation as set forth in column (4) of Table 1 and Table 2 in Attachment A, the Company may issue debt securities without further Commission approval if the all-in rate does not exceed 8.0 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.

5) For the issuance of secured debt and other debt, except Credit Support Arrangements, the Company shall demonstrate that it achieves a competitive rate on any publicly offered security and on any privately placed security.

6) For entering into Credit Support Arrangements, the Company shall file, no later than one month after any Credit Agreement has been signed, a copy of the executed Credit Agreement and a report demonstrating that any fees, margins over underlying securities, interest rates, and expenses are consistent with contemporaneous competitive market prices for such agreements

7) For entering into Credit Support Arrangements, the Company shall file reports with the Commission no less frequently than quarterly, with each report including the outstanding balances under the Credit Support Arrangements, and total amount of interest accrued and fees paid in the reporting period. Filing of such reports shall continue as long as the Credit Support Arrangements remain in effect.

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[2] Credit Support Agreements in the context of this condition refer to letter of credit arrangements with one or more banks or such other agreements or arrangements as may be necessary or appropriate, from time to time, to provide additional credit support for the payment of the principal of, interest on and premium (if any) on the $2,000,000,000 Debt of the current application as represented on page 1 of the Company's application.

[3] 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.

8) As for Credit Support Arrangements, approval of this application and the conditions and requirements herein by the Commission does not constitute a precedent or finding as to whether any Credit Support Arrangement shall be treated as long-term debt for purposes of any minimum capital requirement pursuant to a Commission order.

9) The Company shall demonstrate that any early refunding of debt is cost-effective.

10) The authorization is to remain in effect as long as the Company maintains senior secured debt ratings no lower than BBB-/Baa3/BBB- (i.e., "investment-grade") from Standard & Poor's, Moody's Investors' Service, Inc., and Fitch Investor Services, respectively.

11) The Company shall file the customary Report of Securities Issued and Disposition of Net Proceeds statements no later than one month after any transaction has been closed and funded, with the Report including, but not limited to, 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.

12) The Commission will reserve 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 will be required in future rate proceedings to show that its capital costs, including embedded expenses, and capital structure are just and reasonable.

DISCUSSION:

PacifiCorp filed an application January 14, 2010, pursuant to Oregon Revised Statutes (ORS) 757.405, 757.410(1), 757.415, and Oregon Administrative Rule (OAR) 860-027-0030, for authority to (1) issue and sell or exchange, in one or more public offerings or private placements, fixed or floating-rate debt (Debt) in the aggregate principal amount of not more than $2,000,000,000 or, if the Debt is issued at an original issue discount[4] (OID), such greater amount as shall result in an aggregate offering price of not more than $2,000,000,000 (or its equivalent amount in, or based upon, foreign currencies determined at the time of issue), (2) enter into letter of credit arrangements with one or more banks or such other agreements or arrangements as may be

[4] An original issue discount (OID) bond is a debt security issued and sold at a price less than its maturity (or par, or face) value. Zero-coupon bonds, or "zeros," are original issue discount bonds issued and sold at a deep discount from their par (or face) value and accrue interest instead of making periodic interest payments (hence "zero-coupon"). Both the principal and the accumulated interest are paid at maturity.

necessary or appropriate from time to time, to provide additional credit support for the payment of the principal of, the interest on and the premium of the Debt, (3) enter into one or more currency swaps, provided that, with respect to the Debt contemplated, such Debt is either issued with a cost to maturity not exceeding the spreads over U.S. Treasury yields established by the Commission or is issued with a cost to maturity not exceeding 9.0 percent per annum, and (4) contribute or sell additional Debt to special-purpose entities (SPEs) in an amount based upon the common securities of the SPE and Commission approval of the proposed guarantee and expense payment agreements relating to the preferred securities of the SPE.

The $2.0 billion limit on debt security issuance does not include the value of any Credit Support Arrangement the Company enters into under the requested authorization.

The Company represents that $1.8 billion in debt had been issued under Order No. 08-013, in UF 4243, as of its January 14, 2010 filing. The Company agrees that, with approval of the current application, the authority to issue any additional debt under UF 4243 is withdrawn.

PacifiCorp requests authority to issue a wide variety of debt securities, potentially including those described below.

First Mortgage Bonds (FMBs)
FMBs have been the traditional source of debt capital for U.S. utilities. FMBs have the first mortgage and senior claim on an asset or group of assets.

The Company's first mortgage bonds are issued under the PacifiCorp Mortgage. The Commission authorized the Company to incur the lien of the PacifiCorp Mortgage in Docket No. UF 3990, Order No. 88-1363.[5]

Medium-Term Notes (MTNs)
MTNs are corporate debt instruments that may be continuously offered to investors over a period of time by an agent of the issuer. MTNs may be offered either domestically or through global programs. Investors can typically select from a variety of maturity bands; e.g., 9 months to 1 year, more than 1 year to 18 months, more than 18 months to 2 years, etc., up to 100 years. MTNs can be offered on either a secured or unsecured basis.

Floating-Rate Debt
Floating-rate debt is typically unsecured debt with interest rates that periodically reset, with the reset period ranging from daily to annually. The most common indices used for

[5] See PacifiCorp's application on page 9.

pricing floating-rate debt are based on the London Interbank Offered Rate (LIBOR),[6] commercial paper, or Treasury bill rates.

Eurobonds (Eurodollar Bonds; Eurodollar Financing)
Eurobonds are bonds: (1) underwritten by an international syndicate, (2) issued simultaneously to investors in a number of countries, and (3) issued outside the jurisdiction of any single country.

Eurodollar Bonds are Eurobonds denominated in U.S. dollars. The interest rate charged on the debt is usually a spread over U.S. Treasury obligations having a similar maturity. Eurodollar bonds are generally unsecured obligations.

Eurodollar Financing is analogous to Eurodollar Bonds, but involves the issuance of debt securities that are specifically unsecured.

Eurodollar Financing may require the Company to enter into a letter of credit arrangement with one or more banks or such other agreements or arrangements as may be necessary or appropriate, from time to time, to support its obligation to repay the principal of, the interest on, and the premium (if any) on the debt. The Company estimates that such an arrangement could involve an issuance fee of approximately two percent of the principal amount sold.[7]

Foreign Currency Debt Combined with a Currency Swap
A Currency Swap is an agreement to swap a series of specified payment obligations denominated in one currency for a series of specified payment obligations denominated in a different currency. Currency swaps are usually fixed for fixed but may involve floating rate interest payments in the swapped currencies.

The issuance of Foreign Currency Debt (debt denominated in a currency other than U.S. dollars), combined with a currency swap, would allow the Company to issue debt in a foreign currency and execute a currency swap to effectively eliminate currency risk.[8] By issuing in a foreign currency, the Company would attract investors that would not normally be investing in its securities. Issuing securities in a foreign currency becomes attractive when the nominal interest rate charged in the foreign country is significantly lower than the rate in the U.S. or in dollar-denominated securities. To the extent that the cost of executing the currency swap is less than the difference between the nominal

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[6] LIBOR is the most widely used benchmark or reference rate for short-term interest rates. Many variable interest rates in the U.S. are based on spreads off LIBOR.

[7] See PacifiCorp's application on page 11.

[8] Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

interest rate in the foreign country and the dollar-denominated interest rate, issuing debt in a foreign currency and executing a currency swap provides a lower total cost of debt. The Company estimates that fees for a foreign currency offering would be approximately two percent of the principal amount sold.[9]

Subordinated Debt
PacifiCorp represents that Subordinated Debt[10] is debt subordinated to other debt of the Company. The Company may issue subordinated debt: (a) directly to investors, as in the issuance and sale of its 8 3/8 percent Junior Subordinated Deferrable Interest Debentures, Series A, pursuant to Docket No. UF 4098; (b) in exchange for its outstanding securities, as in the issuance of its 8.55 percent Junior Subordinated Deferrable Interest Debentures, Series B, pursuant to Docket No. UF 4126; or (c) to a SPE in support of the preferred securities of the SPE, as in the issuance and sale of its 8 1/4 percent Junior Subordinated Deferrable Interest Debentures, Series C, pursuant to Docket No. UF 4140, and its 7.70 percent Junior Subordinated Debentures Series D, pursuant to Docket No. UF 4151.

Staff believes authorization for the issuance of Subordinated Debt should be treated separately in an independent finance application, because it may involve the use of a SPE such as in (c) above.

Fees and Expenses

The only fees payable by the Company, other than those for technical services, will be fees and expenses to the underwriters and agents (including any arrangement fees for currency swaps). The Company may also incur an annual fee for credit support which is not expected to exceed one percent on the principal amount of the Debt. Subject to final negotiations, PacifiCorp's application represents that the fee is not expected to exceed 3.0 percent of the aggregate principal amount of the Debt if the Debt is issued overseas and that if issued domestically, the fee is not expected to exceed one percent of the aggregate principal amount of the Debt. The Company further represents that these compensation levels to the agents or underwriters are consistent with the usual and customary fees prevailing in the market and that the fees are reasonable given the services provided by the agents or underwriters.[11]

[9] See PacifiCorp's application on page 12.

[10] See PacifiCorp's application on page 14.

[11] See PacifiCorp's application on page 17.

Technical services fees and expenses associated with Debt issuance are estimated by PacifiCorp to total $2,500,000.[12]

PacifiCorp represents that the firm or firms selected to lead an offering under this authority will be determined by the Company's assessment of their ability to assist the Company in meeting its objective of having the lowest total cost for the Debt to be issued.

The Securities will have maturities established at the time of issuance and are expected to range from nine months to thirty years, and will be sold through underwriters or agents, or privately placed directly to investors with or without the use of agents.

Interest rates on Debt issued might be fixed or floating. PacifiCorp requests authority for Debt issuance subject to either the Debt's cost to maturity not exceeding specified maximum total spreads over U.S. Treasury yields or the Debt being issued with a cost to maturity not exceeding 9.0 percent per annum. The Company's proposed spreads depend on the Security's maturity and, for First Mortgage Bonds, are attached in column (3) of Table 1 in Attachment A. For interest rates on other debt, if the interest rate is floating, the maximum spreads over the applicable U.S. Treasury benchmarks are attached in column (3) of Table 2 in Attachment A.

This request appears reasonable, with the exception that the 9.0 percent cost limitation provides substantial "headroom" for rate increases from current interest rate levels. Rates on Moody's seasoned Aa, A, and Baa Utilities were 5.67, 5.84 and 6.20 percent, respectively, as of February 9, 2010.[13]

Staff established the maximum all-in rate spread[14] over the yield of the relevant benchmark Treasury security for two-, five-, 10-, 20- and 30-year maturities[15] based on information supplied by the Company. An all-in rate spread has been assigned to each of the different maturities proposed by the Company as shown in column (4) of Table 1 and Table 2, for secured debt and other debt, respectively.

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[12] 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.

[13] Source: Bloomberg Professional Service.

[14] The discussion immediately following applies to the all-in rate spreads in column (4) of Table 1 and of Table 2 in Attachment A.

[15] On February 9, 2010, the two-, five-, 10-, 20- and 30-year Treasury's yields were 0.84%, 2.32%, 3.67%, 4.44%, and 4.58%, respectively.

PacifiCorp may issue secured debt and other debt, except Credit Support Arrangements, without further Commission approval if all-in rate spreads do not exceed limits set forth in column (4) of Table 1 in Attachment A, for secured debt, and column (4) of Table 2 for other debt. Alternatively, should all-in rate spreads exceed the relevant maximum spread over Treasuries limitation as set forth in column (4) of Table 1 and Table 2 in Attachment A, the Company may issue debt securities without further Commission approval if the all-in rate does not exceed 8.0 percent. The 8.0 percent all-in rate limitation is 100 basis points less than the 9.0 percent all-in rate limitation specified in Order No. 08-013, of Docket No. UF 4243.[16] The average rate on Moody's seasoned A utility bond index for December, 2007 (when PacifiCorp filed in Docket No. UF 4243) was 6.16 percent, or 39 basis points greater than the average rate for the index of 5.77 percent in January, 2010.[17]

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

As a numerical example, consider the hypothetical situation where PacifiCorp issues $500 million of 10-year FMBs at par having a coupon rate of 6.5 percent, which is 283 bps over the recent benchmark U.S. Treasury yield of 3.67 percent.[18] Issuance and other associated costs total $5,625,000, and interest is paid semiannually. The all-in cost of this hypothetical bond issuance is calculated to be 6.66 percent, which is 299 bps over the benchmark U.S. Treasury yield. In this example the all-in rate spread of the FMBs (299 bps) exceeds the maximum all-in rate spread of 275 bps for 10-year securities per Table 1. However, the all-in rate is 6.66 percent, which is less than the all-in rate "hard cap" of 8.0 percent. Therefore PacifiCorp could issue the FMBs and be in compliance with the all-in rate limitation.

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[16] *See* page 6 of Appendix A.

[17] Source is Bloomberg Professional Services, which was not available to Staff at the time Staff's Report in UF 4243 was developed. Staff's direct examination of Moody's Utility Bond index rates allows for a more considered specification of an all-in rate limitation.

[18] This was the yield of the constant maturity 10-year Treasury on February 9, 2010.

Use of Proceeds

PacifiCorp represents the proceeds will be used for the following purposes: the acquisition of utility property or the construction, extension or improvement of utility facilities; the improvement or maintenance of service; the discharge or lawful refunding of its obligations; and, refunding the company's treasury expended on utility purposes. To the extent the Company's treasury is refunded, the original expenditures, or their precedents, were made for purposes described by ORS 757.415 (1) (a), (b), or (e). To the extent that obligations are discharged or refunded, those obligations or their precedents were used for purposes described by ORS 757.415 (1) (a) or (b).

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

PROPOSED COMMISSION MOTION:

PacifiCorp's application to issue and sell or exchange up to $2.0 billion of debt securities, enter into credit support agreements, and enter into currency swaps be approved with Staff's conditions and reporting requirements.

Attachment

UF 4262 – PacifiCorp $2.0b Debt

Attachment A

Interest rates:

The interest rate will be determined at the time of issuance unless the securities have the delayed settlement feature, in which case the interest rate will be determined on the date PacifiCorp and the securities' purchasers enter into a binding agreement for the purchase and sale of the securities.

Table 1

Maximum Spreads over Benchmark U.S. Treasury Yield[19]

for Secured Debt

Term greater than or equal to: (1)	Less than (2)	Coupon Spread (3)	All-in Spread (4)
9 months	2 years	185	254
2 years	3 years	195	246
3 years	4 years	210	246
4 years	6 years	220	246
6 years	9 years	230	275
9 years	10 years	250	275
10 years	11 years	260	275
11 years	15 years	265	275
15 years	20 years	270	291
20 years	30 years	280	300
30 years or more		290	300

[19] 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.

Table 2

Maximum Spreads over Benchmark U.S. Treasury Yield

for Other Debt

Term greater than or equal to: (1)	Less than (2)	Coupon Spread (3)	All-in Spread (4)
9 months	2 years	205	380
2 years	3 years	215	312
3 years	4 years	230	312
4 years	6 years	240	312
6 years	9 years	250	324
9 years	10 years	270	324
10 years	11 years	280	324
11 years	15 years	285	324
15 years	20 years	290	331
20 years	30 years	300	338
30 years or more		310	338