

ORDER NO. 13 098

ENTERED MAR 26 2013

**BEFORE THE PUBLIC UTILITY COMMISSION  
OF OREGON**

UF 4276

In the Matter of

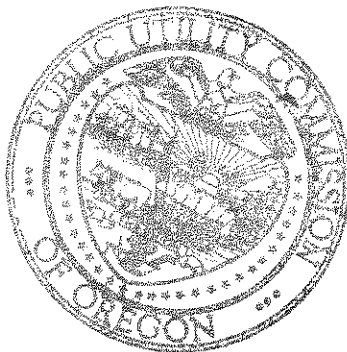
PORTLAND GENERAL ELECTRIC  
COMPANY,

Application for Authority to Issue and Sell not  
more than \$400 million of First Mortgage  
Bonds.

ORDER

**DISPOSITION: STAFF'S RECOMMENDATION ADOPTED**

At its public meeting on March 26, 2013, the Public Utility Commission of Oregon adopted Staff's recommendation in this matter. The Staff Report with the recommendation is attached as Appendix A.



BY THE COMMISSION:

*Becky L. Beier*

**Becky L. Beier**  
Commission Secretary

A party may request rehearing or reconsideration of this order under 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 860-001-0720. A copy of the request must also be served on each party to the proceedings as provided in OAR 860-001-0180(2). A party may appeal this order by filing a petition for review with the Court of Appeals in compliance with ORS 183.480 through 183.484.

PUBLIC UTILITY COMMISSION OF OREGON  
STAFF REPORT  
PUBLIC MEETING DATE: March 26, 2013

REGULAR \_\_\_\_\_ CONSENT X EFFECTIVE DATE \_\_\_\_\_ N/A \_\_\_\_\_

DATE: March 5, 2013

TO: Public Utility Commission

FROM: Matt Muldoon *mm*

THROUGH: Jason Eisdorfer, Maury Galbraith, and Marc Hellman *ME*

SUBJECT: PORTLAND GENERAL ELECTRIC: (Docket No. UF 4276) Requests authority to issue up to \$400 million of first mortgage bonds.

**STAFF RECOMMENDATION:**

Staff recommends the Commission approve Portland General Electric Company's (PGE or Company) application subject to the following conditions and reporting requirements.<sup>1</sup>

1. Authorization Limit

Total First Mortgage Bonds (FMB) securities issued or sold under this authority shall not exceed \$400 million in aggregate principal.

Note: If the securities are issued at an original issue discount (OID) not to exceed one percent, such greater amount shall result in an aggregate offering price of not more than \$400 million.

2. Withdrawal of Prior Authorization

After the date the Commission issues an Order authorizing the issuance of FMB pursuant to this application, previous orders issued by the OPUC authorizing the Company to issue certain First Mortgage Bonds (FMB) can no longer be relied upon after the date of this order to issue an additional amount of new FMB's over and above the amount currently outstanding under such previous orders.

3. Cost Requirements and Controls

Subsequent to an authorizing Commission order pursuant to this application, the Company may issue FMBs without further Commission approval, provided that proceeds are used for lawful utility purposes, and provided either:

- A. All-in rate<sup>2</sup> spread(s) over yield(s) on like maturity U.S. Treasury Securities (UST) do not exceed limits set forth in Attachment A, or if

<sup>1</sup> The Company has told Staff that it agrees to Staff's proposed conditions and reporting requirements.

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B. The all-in rate does not exceed a 6.0 percent "hard cap".

4. Hedging Limitations

No hedging or financial derivatives are authorized, other than delayed issuance arrangement of up to one year under a private placement.

5. Cost Competitive

Agent and underwriting commissions for the issuance of FMBs will not exceed the usual and customary fees prevailing in the market for like maturity issuances, and will not in any case exceed 0.875 percent of gross proceeds. The Company shall further demonstrate that for all publicly offered or privately placed FMBs, the Company achieved all-in rates that contemporaneously were both competitive and cost effective.

6. Timely Reporting

- A. The Company will promptly provide a written summary notice through the PUC filing center and through email directly to PUC Staff named on the service list for this docket of any issuance or execution of a bond purchase and sale agreement with a delayed issuance feature occurring under an Order pursuant to this application. A summary notice need only show series name, maturity, coupon rate, principal, and agreement date.
- B. The Company will also provide the Commission with the customary Report of Securities Issued and Disposition of Net Proceeds statements (reports) no later than 30 calendar days after any transaction has been closed and funded. Reporting will be denominated in U.S. dollars and will include, but not be limited to: total value of the issuance; total and per unit fees and expenses; interest costs; credit ratings; copies of itemized invoices for all external legal costs; and an explanation of the Company's choice and cost of placement.
- C. For each securities issuance under condition 3-B, the Company shall report to the Commission within 30 calendar days after any transaction is closed and funded regarding the prevailing market conditions and if applicable, the causes for all-in spreads exceeding the relevant spreads specified in Attachment A over the UST benchmark yields.

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<sup>2</sup> See the definition for "All-in Cost" by browsing to the lower right corner of the Commission's home webpage at: <http://www.oregon.gov/PUC/pages/index.aspx>. Then, click the Quick Link: "Standard Data Requests" and scroll to page 32, "Terms".

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7. Termination of Authority

The Company's authorization to issue FMBs granted by an Order issued pursuant to this application, is terminated if PGE's credit ratings fall below Investment Grade<sup>3</sup> as determined by either Standard & Poor's (S&P)<sup>4</sup> or Moody's.<sup>5</sup>

8. Authorization End Date(s)

Provided all conditions and reporting requirements are fulfilled, authorization under an Order issued pursuant to this application will remain in effect until superseded or exhausted.

9. Reservation of Judgment Regarding Reasonableness

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 issuance.

**DISCUSSION:**

The Company filed an application February 13, 2013, pursuant to ORS 757.405, ORS 757.410(1), and ORS 757.415; and OARs 860-027-0025<sup>6</sup> and 860-027-0030 for authority to issue and sell up to an aggregate amount of \$400M in long-term FMB debt having maturities of at least one year.

If PGE's application is granted, FMB securities may be issued in any proportion and in any combination of differently sized public offerings or private placements provided that the combined total of these offerings does not exceed \$400M, inclusive of any OID. After the date the Commission issues an Order authorizing the issuance of FMB pursuant to this application, in order to issue FMB, PGE will not be able to rely on previous orders issued by the OPUC authorizing the Company to issue FMB.

**First Mortgage Bonds (FMB):**

PGE requests authority to issue fixed-rate, secured, long-term debt<sup>7</sup> in the form of FMBs. FMBs have been the traditional debt financing vehicle utilized by utilities in the United States. The Company's FMBs place a lien under its Mortgage and Deed of

<sup>3</sup> Investment grade long-term debt is rated BBB- or better by S&P, or Baa3 or better by Moody's. Staff does not foresee a loss of ratepayer perceived protection or value absent ratings by Fitch.

<sup>4</sup> S&P refers to Standard & Poor's, which is a subsidiary of The McGraw-Hill Companies.

<sup>5</sup> Moody's refers to Moody's Investors Service, which is a division of Moody's Corporation.

<sup>6</sup> Staff presumes OAR 860-027-0025 is applicable with regard to issuance of First Mortgage Bonds.

<sup>7</sup> Long-term debt as used in this Staff Report and the Company's application denotes debt having a maturity of over one year, consistent with ORS 757.415(3).

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Trust, on substantially all of PGE's utility property. As amended and supplemented by various indentures since inception, the lien provides security for bondholders, which in current market conditions results in a higher credit rating than the Company's unsecured rating, and decreases coupon rate at issuance as compared with otherwise similar unsecured debt.

#### **Unsecured Debt Securities:**

PGE does not seek authorization to issue unsecured debt with this application. The Company asserts that FMBs "currently represent the least expensive long-term taxable debt financing available to PGE, (UF 4276 Application of PGE 7.) Based on Staff's review of SNL, Bloomberg and Board of Governors of the Federal Reserve System (FED) resources, Staff concurs.

#### **Credit Ratings:**

PGE's outstanding FMBs are currently rated as:<sup>8</sup>

##### **Moody's**

A3

##### **S&P**

A-

#### **Early Redemption and Sinking Fund Features:**

A sinking fund provision is periodically used for two reasons. First, to shorten the average life of bonds, the issuer is required to retire a fixed principal amount of the bonds at par on a specific date or dates. Secondly, in exchange for a shorter average life, typically a lower coupon is required that reflects the average life of the bonds instead of the final maturity.

PGE may utilize an early redemption feature to provide financial flexibility. PGE has indicated that it expects to include a make-whole redemption feature which has become standard in utility first mortgage bond offerings. A make-whole redemption feature allows a company to call the bonds at any time at a cost equal to the future debt service discounted back to the redemption date. The discount rate for PGE is expected to be a rate based on the prevailing treasury yield to current maturity plus 50 basis points. This type of redemption does not typically require the issuer to pay a higher coupon or fee since the bond holder is effectively made whole.

The Company may also choose to implement other redemption features which would allow PGE an option to call the bonds in the future at a rate determined at the time of

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<sup>8</sup> The Company provides this information on page 6 of its application.

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issue. The redemption rate can be set at par or at some premium and is dictated by market conditions at the time of sale. These types of call provisions usually require that the issuer pay a higher coupon or interest rate to compensate the bondholder for the risk that their bonds may be called prior to maturity.

**Capital Structure:**

PGE targets a long-term 50/50 Debt/Equity capital structure. The ability to issue both equity and debt affords the Company a reasonable expectation to achieve this target over time. PGE has outstanding Commission authorization to issue 15 million shares of Common Equity under Order No. 10-423 in Docket No. UF 4266. An order authorizing the Company to issue FMBs in the form and quantity requested would refresh PGE's depleted authorization to issue long-term debt consistent with the Company's current utility obligations.

**Limited Hedging Authority Requested:**

PGE requests only the authority to engage in a delayed issuance in private placements.

**Shelf Registration is in Place:**

PGE represented in the February 21, 2013, phone workshop that the Company has an appropriate three-year shelf registration on file with the U.S. Securities and Exchange Commission (SEC) that will not expire until November 18, 2013. PGE would pay SEC fees for any publicly issued debt, based on the total amount of debt issued at time of each issuance pursuant to the SEC's published fee schedule.

**Selection of Agents:**

Selection of agents, underwriters and external council may include entities shown on page 8 of the Company's application, based in part on knowledge of PGE's business, and proven ability to place debt, and to provide cost effective services.

**Technical Expenses:**

PGE represents that agent and underwriting commissions associated with the issuance of debt will not exceed usual and customary fees prevailing in the market and will not in any case exceed 0.875 percent of gross proceeds. (UF 4276 PGE Application 9.) Both Staff and the Company expect actual commissions to vary depending on the maturity of the Debt Securities issued (e.g., 0.875 percent is estimated to be the fees for issuances with maturity dates of approximately 30 to 35 years). Shorter maturities typically require lower commissions than do longer maturities.

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The Company anticipates issuance expenses as illustrated in Attachment B. These representative fees and charges will likely not exceed similar rated issuances Staff researched.

**Spreads over U.S. Treasuries' (UST) Yields:**

The Company represents that the credit spread portion of the coupon or interest rate on the FMB's is expected to fall within the all-in spread over UST as shown in Attachment A. (UF 4276 PGE Application 7.) Utilizing Bloomberg information, Staff found these representative spreads allow adequate headroom for the Company to issue FMB under current financial conditions, and those anticipated by the Board of Governors of the Federal Reserve System over the next several years.<sup>9</sup>

Should all-in spreads exceed the relevant maximum spread over UST, as set forth in Attachment A, the Company may still issue FMB without further Commission approval if the all-in rate does not exceed a "hard cap" of 6.0 percent, subject to additional reporting requirements outlined in Condition 6. Staff believes PGE's proposed 6.0 percent all-in rate "hard cap" allows adequate headroom to assure Company access to debt markets, while providing reasonable cost controls to protect ratepayers.

**Use of Proceeds:**

The Company may use proceeds for any or all of the following lawful purposes:

1. Construction, facility improvement, and maintenance programs;
2. Retire or exchange outstanding stock, bond, note or other debt issuances;
3. Reimburse Company treasury for funds previously expended; and
4. Other purposes, as may be permitted by law.

**Cost Efficiencies:**

PGE has taken actions to control costs including legal costs for FMB issuance in private placement.

**No Harm:**

Staff review of this application indicates that approval will do no harm and can be expected to benefit ratepayers through PGE efficiencies and cost controls achieved

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<sup>9</sup> Staff accessed the minutes of the Board of Governors of the Federal Reserve System, minutes of the Open Market Committee released on February 20, 2013 for the meeting of January 29-30, 2013.

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without acceptance of incremental risk. The Company has reviewed and agrees with the conditions set forth in this memo.

**PROPOSED COMMISSION MOTION:**

The Company's application for authority to issue up to \$400 million of First Mortgage Bonds be approved with the conditions and reporting requirements 1-9 listed above.

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## Attachment A

### Maximum Allowable All-in Spread over UST Yields for FMBs in Normal Market Conditions

Maturity		FMB
At Least	But No More Than	Annual All-in Spread
		Basis Points
Year(s)		
1	9	*105
10	14	110
15	19	120
20	24	130
25	35	150

**\*Note:** Company calculated all-in cost spread does not include the benchmark rate itself. The value flagged is 5 bps higher than requested by PGE. Utilizing confidential information provided by the Company in comparison to Bloomberg spreads<sup>10</sup> for like rated utility bonds, Staff finds that 100 bps could unintentionally preclude access to capital for some combinations of issuances in public and private placement with delayed start at no or minimal incremental cost that could be beneficial to ratepayers, depending on market conditions.

This slight incremental flexibility is consistent with PGE's efforts to lock in historically low, known and measurable, all-in rates at minimal incremental cost with no incremental risk to ratepayers.

<sup>10</sup> Staff referenced Bloomberg FMB/Secured USD indexed data on February 21, 2013.

**Attachment B****PGE Estimated Representative Issuance Expenses**

Item	FMB Debt	
	\$	Per \$100
Principal Amount (Face Value)	\$400,000,000	\$100
Plus Premium or Less Discount	(Not Applicable)	
Gross Proceeds	<b>\$400,000,000</b>	\$100
Underwriter Spread & Commissions	3,500,000	\$ 0.875
SEC Registration	15,000	
Printing & Engraving	30,000	
Trustee Charges	15,000	
(Independent Public) Accounting	40,000	
Rating Agency	200,000	
Legal	150,000	
<b>Total Deductions</b>	<b>3,950,000</b>	<b>\$ 0.988</b>