ORDER NO. 14 004

ENTERED JAN 07 2014

BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UF 4284

In the Matter of

PORTLAND GENERAL ELECTRIC COMPANY,

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

ORDER

DISPOSITION: STAFF'S RECOMMENDATION ADOPTED

At its public meeting on January 7, 2014, 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.

ITEM NO. CA1

PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: January 7, 2014

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

DATE: December 31, 2013

TO: Public Utility Commission

FROM: Matt Muldoon

THROUGH: Jason Eisdorfer, Maury Galbraith, and Marc Hellman

SUBJECT: PORTLAND GENERAL ELECTRIC: (Docket No. UF 4284) Requests authority to issue up to $400 million of first mortgage bonds and debt securities

STAFF RECOMMENDATION:

Staff recommends the Commission approve Portland General Electric Company's (PGE, or Company) application subject to nine conditions and reporting requirements. The Company has reviewed and agrees with this memo.

DISCUSSION:

PGE filed an application December 9, 2013, pursuant to ORS Chapter 757 in general and more specifically 757.405, ORS 757.410(1), and ORS 757.415, and OAR 860-027-0025 and 860-027-0030 for authority to issue and sell or exchange up to an aggregate amount of $400 million (M) in long-term First Mortgage Bonds (FMB) and Unsecured Debt Securities (Debt Securities) having maturities of at least one year.[1]

Staff concludes that subject to the recommended conditions as provided herein, the proposed issuance satisfies the Commission's criteria and the statutory criteria and recommends that the Commission approve the application. All remaining long-term debt issuance authority granted by prior Commission Orders will automatically terminate when a final order is entered in Docket No. UF 4284 granting PGE's application as

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1 Long-term debt as used in this Staff Report and the Company's application denotes debt having a maturity of over one year. Information regarding debt maturities over the 9 month or 270 day maximum maturity of Commercial Paper, but less than one year is received by Staff for informational purposes only, consistent with ORS 757.415(3).

modified herein.[2] Thereafter, FMB and Debt Securities may be issued in any proportion and may be issued 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 original issue discount (OID).

First Mortgage Bonds (FMB):

PGE represents in its application that it may issue fixed-rate, secured long-term debt 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 on Company property under its Mortgage and Deed of Trust as amended and supplemented by various supplemental indentures since inception. The lien acts as collateral for bondholders, which in current market conditions results in a higher credit rating than the Company's unsecured rating, and decrease of the coupon rate at issuance, as compared with otherwise similar unsecured debt.[3]

Unsecured and Floating Rate Debt Securities:

Flexibility to issue unsecured debt securities with fixed- or floating-rates and having maturities of one or more years is consistent with previous Commission authorizations.[4] PGE wishes to retain the flexibility of issuing unsecured debt in the form of debt securities should the Company find it advantageous to do so. PGE will be prepared to demonstrate in a subsequent rate case that any issuance of floating rate debt or unsecured debt was cost effective and prudent based on both its interest rate coverage restrictions and market conditions at issuance

Credit Ratings:

PGE's outstanding long-term debt, excepting pollution control revenue bonds, has generally been fixed-rate and secured. The Company's FMBs are currently rated as:

Moody's: A2 **S&P**: A–

In general, the interest rate or coupon is higher for unsecured debt because the unsecured ratings are typically one or two notches less than secured ratings. Debt issued in the private placement market may be advantageous since it provides flexibility

[2] The termination of prior authority to issue bonds or notes under prior orders is consistent with the Company's application, page 1, paragraph 1.

[3] The Company's application on page 8-9 compares Moody's PGE FMB credit rating of A2 and Standard & Poor's (S&P) A – with lower unsecured long-term debt ratings of Baa1 and BBB respectively.

[4] Order No. 10-171 in Docket No. UF 4263 provided Idaho Power similar flexibility.

of timing and size, and lower issuance costs. Private placements generally do not require rating by rating agencies.[5] But, they do have an implied rating based on the Company's current ratings.

Longer than 30-Year Maturities Authorized:

The Company requests that authority granted allow first mortgage bonds and unsecured debt securities to have a maturity of up to 40 years.[6] Confidential benchmarking by Staff indicates that up to 40-year issuances at reasonable costs may be available to PGE. Such longer maturities may lock in historically low coupon rates while reducing pressure on the Company's debt maturity profile. Therefore, Staff's recommended Conditions are silent regarding maximum maturity, permitting longer than 30-year maturities when prudent and cost effective.

Broad Hedging Authority Requested and Conditionally Authorized:

PGE requests authority directly or constructively to engage in interest rate hedging arrangements with respect to bond issuances, including treasury interest rate locks, treasury interest rate caps, treasury interest rate collars, treasury options, forward starting interest rate swaps and swap option combinations (swaptions). The Company does not claim, and Staff has seen no evidence, that any of the above options are necessary or cost effective in comparison to a delayed issuance in private placement at this time. However, the Company wishes to maintain flexibility for possible future hedging activity relating to FMB or Debt Securities.

Performing The Company's Own Hedging Analysis:

The Company recognizes that it should either conduct its own analysis of proposed hedging transactions, or use independent third party analysis, in addition to evaluating an investment bank's indicative analysis. PGE agrees with Staff as memorialized here that before entering into a hedging arrangement for the FMBs or Debt Securities, it will perform "its own" in-depth analysis of incremental risks and costs represented by hedging, or rely on independent third party analysis.

Proposed hedges should be benchmarked against alternatives inclusive of no hedge and delayed start in private placement, addressing outcomes under potential outlier events as well as most likely outcomes. Hedging analyses may be informed by, but should not solely rely on investment bank provided materials. The analyses should place minimal weight on unverified indicative data, and select range of years "snapshot" trend analysis. The hedging analyses should clearly identify material assumptions and

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5 The Company indicates that debt in private placement may not be rated on page 13 of its application.

6 See Application page 8, paragraph 3.

answer the question: "Who wins and who loses, how much money, if assumptions and correlations do not hold true?" The analyses may rely on third party quantitative cost and risk analysis provided by a directly retained independent third party expert firm not associated with investment banks and not in the business of finding or acting as hedging counterparties.

The hedging analyses should capture contemporaneous cost quotes for hedging products, customized to allow the Company to avoid taking on incremental cost and risk in excess of the underlying volatility the Company strives to manage, inclusive of swaps with asymmetric distribution of outcome tails that trade some likelihood of surplus upside potential gain for elimination of downside risk should hedging assumptions and expected correlations not hold true. The analyses should also disaggregate any vanilla swaps and standardized hedging product from bond and debt securities issuances, and compare the cost of those products sourced via investment banks against the cost of exchange traded derivatives.

The Company asserts here that it will draw upon experience gained from previous hedging transactions to control the cost of like future hedging activity, in part to reduce the costs of customized hedging arrangements, including investment bank fees and legal costs of delayed starts in private placements.

PGE also represents that its hedging policy is a general outline and not an analytic evaluation tool that can be relied upon in lieu of the Company's own case-by-case analysis of whether to enter into a hedge. In addition, the hedging policy allows for multiple accounting methods, and the Company represents that the hedging policy is not an after-the-fact evaluative tool that measures the cost vs. benefit of the hedge and determines the extent to which it managed underlying volatility. Thus the Company represents here that it will: 1) perform its own analysis prior to entering into any hedging; 2) monitor active hedges for unfavorable developments; and 3) carry out after-the-fact hedging evaluations from a rigorous and practical financial operations perspective, understanding that this perspective will not be the same as accounting tests of effectiveness. For all hedging activity, other than delayed start in private placement with de minimus incremental cost and risk, PGE will maintain its analysis in a MS Excel spreadsheet form that can be provided to Staff on request. PGE will maintain this analysis at least through the conclusion of its next general rate case in Oregon after each financial hedge is completed or unwound.

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

PGE's requested "Maximum Spreads over Benchmark Treasury Yields" on page 10 of its Application are replaced by values shown in Attachment A to this memorandum. Staff's recommended values in Attachment A are based in part on Bloomberg (BB) data summarized by the graphs in Attachment C. Limits shown in Attachment A allow adequate headroom for the Company to issue FMB and debt securities under financial market conditions anticipated by the Board of Governors of the Federal Reserve System over the next several years.[7]

Further, Staff sees few if any recent U.S. utility bond issuances with 15-, 20-, or 25-year maturities. When those unutilized maturities are removed from Attachment C, 150 basis points spread over UST provides adequate headroom for the Company's likely 10-, and 30-year debt issuances.

Underwriter and Agent Fees:

Appendix A also shows Staff's recommendation regarding the maximum range of allowed agent and underwriting commissions for issuances. Underwriters' commissions represent the maximum commission to be paid by the Company and 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 years). Shorter maturities typically require lower commissions than do longer maturities.

Staff's recommended limits on underwriting commissions are stated in bps or percentages of aggregate issuance amounts. Under Staff's recommendations, underwriting commissions will not in any case exceed 0.875 percent of gross proceeds (approximately $3.5 million).

PGE's estimates regarding agent and underwriting commissions associated with the issuance of debt are less than or equal to Staff's recommended maximums. (PGE Application at 10-11.)

Other Technical Expenses:

After netting-out issuance fees as illustrated in Attachment B,[8] the Company expects to achieve approximately $396 million in aggregate net proceeds, not including any OID determined at the time of issuance.

Representative aggregate fees and charges in Attachment B are higher than for recent 2013 issuances. The Company may issue multiple separate sets of bonds spread out over time rather than a single set of coordinated issuances within the same quarter.

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7 Staff accessed the minutes and materials of the Board of Governors of the Federal Reserve System, minutes of the Open Market Committee released for the meeting of December 17-18, 2013 at http://www.federalreserve.gov/monetarypolicy/fomccalendars.htm.

8 Attachment B sets out PGE's Estimated Representative Issuance Expenses for the FMB and Debt Securities issuances.

However, PGE stands ready to show that issuance costs were consistent with component costs for like stand alone issuances in future audits or general rate cases.

Hard Cap Alternative:

Should all-in spreads exceed the relevant maximum spread over U.S. Treasury Securities (UST) 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 7.0 percent, subject to additional reporting requirements outlined in Condition 6.[9] A 7.0 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 states that it may use proceeds for any or all of the following 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.

There is no single specific large project planned, which this issuance authority would support. Rather the entire $400M debt would support usual utility purposes as described above, consistent with statutory requirements.[10]

Early Redemption Features Are Authorized:

PGE may utilize an early redemption feature to provide financial flexibility. In addition, the Company will stand ready to demonstrate how any early redemption executed was cost effective based on prevailing market conditions at the time of execution.

A make-whole redemption feature allows an issuer to call bonds at any time at a cost equal to the future debt service discounted back to the redemption date. Such provisions are usual and generally to ratepayers benefit. The discount rate for a make-whole provision within a call feature is likely be a rate based on the prevailing treasury yield to current maturity plus fewer than 30 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.

[9] 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."

[10] The Company's intended uses mirror those authorized in ORS 757.415(1).

The Company may also choose to implement other redemption features that would allow PGE an option to call the bonds in the future at a rate determined at the time of 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 roughly targets a long-term 50/50 Debt/Equity capital structure. The ability to issue both equity and debt should allow the Company to achieve this target over time. An order authorizing the Company to issue FMBs in the form and quantity requested would refresh PGE's nearly depleted authorization to issue long-term debt consistent with the Company's current utility obligations.

Selection of Agents:

Selection of agents, underwriters and external counsel may include entities associated with the Company's outstanding debt based in part on knowledge of the Company's business, and proven ability to place debt, and to provide cost effective services. The Company may select additional service providers for the issuance of the FMBs and/or Debt Securities as it deems appropriate.

No Harm:

Staff review of this application indicates that the FMB issuance requested will do no harm and can be expected to benefit ratepayers. The Company wants the flexibility to engage in other activities that may not be demonstrated to be necessary or cost effective at this time, but that may be cost effective some years into the future. PGE agrees that the Company will perform its own case-by-case in-house analysis or retain its own independent third-party experts to ensure that ratepayers bear no unnecessary incremental cost or risk from activities beyond vanilla FMB issuance with delayed start in private placement. Based on that representation, not on Company hedging or accounting policies, Staff recommends approval of PGE's application as modified by this report. The Company has reviewed and agrees with the terms of this memo.

PROPOSED COMMISSION MOTION:

The Company's application for authority to issue up to $400 million of First Mortgage Bonds and debt securities be approved with the conditions and reporting requirements 1-9 listed below:[11]

1. Authorization Limit

   Total aggregate securities issued, sold or exchanged under this authority shall not exceed $400 million.

   Note: If the securities are issued at an 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

   All prior Commission's FMB and debt securities issuance authorization will automatically terminate upon the issuance of a Commission's Order in UF 4284 approving PGE's Application to issue debt securities up to the limits shown in Condition 1.

3. Cost Requirements

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

   A. All-in rate spread(s) over yield(s) on like maturity UST do not exceed limits set forth in Attachment A; or

   B. The all-in rate does not exceed a 7.0 percent "hard cap."

   Both "A" and "B" above incorporate the restriction that all costs of any hedging associated with any issuance under the authority requested must be accomplished within the all-in spreads or rate specified above.

4. Hedging Limitations

   Authorization to enter into Interest Rate Hedging Arrangements as requested[12] is predicated upon the Company's completion of the Company's own affirmative comprehensive analysis or use of independent third-party analysis. Regardless of any prevailing hedging and accounting policies, and regardless of the presence of associated materials generated by investment banks or hedge counterparties, prior to executing any hedging or financial derivative agreement, other than a delayed

[11] The Company has told Staff that it agrees to Staff's proposed conditions and reporting requirements.

[12] PGE requests authority directly and constructively to enter into Interest Rate Hedging Arrangements.

issuance arrangement of up to one year under a private placement at de minimus incremental cost and at no incremental risk, the Company will perform its own comprehensive analysis[13] regarding hedging costs, benefits and risks, or will obtain expert advice from an entity not associated with investment banks and not offering hedging contracts. The Company will stand ready to present its hedging analysis to the Commission upon request and will maintain its analysis as described in the body of this report.

5. <u>Cost Competitive</u>

Agent and underwriting commissions for the issuance of FMBs will not exceed the fees as shown in Attachment A, and will not in any case exceed 0.875 percent of gross proceeds. The Company shall demonstrate for all debt issuances and associated activities that the Company achieved all-in rates that contemporaneously were both competitive and cost effective.

6. <u>Timely Reporting</u>

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 denominated in U.S. dollars will include, but not be limited to: total value of the issuance; total and per unit fees and expenses (including external legal costs); interest costs; credit ratings; and an explanation of the Company's choice and cost of placement. To the extent that fees, expenses and invoices are not available within the 30-day period, they will be provided to the Commission in final Reports within 120 days after the transaction has been closed and funded.

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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13 See "Performing The Company's Own Hedging Analysis" in the body of this report.

7. Termination of Authority

The Company's authorization to issue FMBs and debt securities granted by an Order issued pursuant to this application is terminated if either S&P's or Moody's credit rating for PGE secured debt falls below Investment Grade.[14]

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. Hedging authority ends when securities issuance authority ends.

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 and related activities.

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[14] 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.

Attachment A

Maximum Allowable
Agent and Underwriter Commissions, &
All-in Spread over UST Yields
for FMBs and Debt Securities
in Normal Market Conditions

Maturity		Maximum Underwriter's Commission	LT-Debt Annual All-in Spread
At Least	But Less Than	Basis Points	
Year(s)			
1.0	1.5	12.5	105
1.5	2.0	15.0	
2.0	3.0	25.0	
3.0	4.0	35.0	
4.0	5.0	45.0	
5.0	6.0	50.0	
6.0	7.0	55.0	
7.0	10.0	60.0	110
10.0	15.0	62.5	
15.0	20.0	67.5	120
20.0	30.0	75.0	150
30.0	45.0	87.5	175

Note: Comparing Bloomberg data[15] for like rated utility bonds, Staff finds that the above limitations provide access to capital with reasonable headroom for likely combinations of issuances in public, and private placement with delayed start at no or minimal incremental cost that could be beneficial to ratepayers, over at least the next two years.

[15] Staff referenced Bloomberg FMB and Unsecured USD indexed data on December 20, 2013.

Attachment B

PGE Estimated Representative Issuance Expenses

Item	FMB Debt Amount	Per $100
Principal Amount (Face Value)	$400,000,000	$100
Plus Premium or Less Discount	(Not Applicable)	
Gross Proceeds	**$400,000,000**	$100
Underwriter Spread & Commissions	3,500,000	$ 0.875
SEC Registration	15,000	
Printing & Engraving	30,000	
Trustee Charges	20,000	
(Independent Public) Accounting	40,000	
Rating Agency	100,000	
Legal	200,000	
Total Deductions	3,905,000	$ 0.976
Estimated Realized Amount	$396,095,000	$ 99.024

Attachment C

Bloomberg (BB) Current Utility Values and Spreads

Accessed by Staff on December 20, 2013