ORDER NO. 19-025

ENTERED Jan 23 2019

BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UF 4272(3)

In the Matter of

PORTLAND GENERAL ELECTRIC COMPANY,

Request for Authority to Extend the Maturity of an Existing $500 Million Revolving Credit Agreement.

ORDER

DISPOSITION: STAFF OPTION B ADOPTED WITH CLARIFICATION

This order memorializes our decision, made and effective at our January 15, 2019 Regular Public Meeting, to adopt Staff's recommended option B, "Unlimited" One-Year-Extensions, with applicable conditions stated in Staff's Report and as supplemented with the following guidance related to the review of future requests for reauthorization. As provided in the conditions to our approval, Portland General Electric Company (PGE) will apply for reauthorization of this facility and the ability to borrow funds thereunder in 2022, and every two years thereafter. We clarify that in seeking future reauthorizations, PGE will be required to report on actual cost savings or any change to net expense for ratepayers, address whether all cost reductions and savings, including any lower fees or spreads then prevalent in financial markets for improved credit ratings, are captured for ratepayer benefit, and sufficiently demonstrate continued use of the facility is in the public interest. The Staff Report is attached as Appendix A.

Made, entered, and effective Jan 23, 2019.

Megan W. Decker
Chair

Stephen M. Bloom
Commissioner

Letha Tawney
Commissioner

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 Circuit Court for Marion County in compliance with ORS 183.484.

ITEM NO. 4

PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: January 15, 2019

REGULAR _X_ **CONSENT** ____ **EFFECTIVE DATE** _____ **N/A** _____

DATE: January 10, 2019

TO: Public Utility Commission

FROM: Matt Muldoon and Sabrinna Soldavini

THROUGH: Jason Eisdorfer and John Crider

SUBJECT: PORTLAND GENERAL ELECTRIC: (Docket No. UF 4272(3)) Requests authority to refresh a $500 million revolving credit facility with unlimited one-year extensions.

STAFF RECOMMENDATION:

Staff recommends the Commission carefully consider Portland General Electric Company's (PGE, or Company) application to enter into a Revolving Credit Agreement and approve the application with either what will be described herein as A: "Usual" Two One-Year Extensions (Usual) or B: "Unlimited" One-Year Extensions (Unlimited): both subject to the following conditions and reporting requirements, as agreed to by the Company:

1. Sum of borrowing principal and Letters of Credit (LC) under the Revolving Credit Agreement (Credit Agreement) will have an initial facility commitment of $500 million. Maximum commitment shall not exceed $600 million at any one time, inclusive of all accordion features.
2. The term of the Credit Agreement initially will be at least four and up to five years, with either A: up to two one-year extensions (Usual), or B: unlimited one-year extensions (Unlimited) as the Commission in its decision may identify. Costs for an annual extension under either option must not exceed 15 basis points (bps) of prevailing commitment amount, excluding upfront fees to enable issuance of Letters of Credit (LC). LC costs will be as provided in Attachment A.

   If option A – Usual is authorized, PGE may replace its Credit Agreement with a usual and customary four or five year credit facility with up to two one-year extensions at a total all-in cost of no more than one percent of initial commitment amount.

If option B – Unlimited is authorized: PGE agrees that it will apply for Commission reauthorization of this facility and the ability to borrow funds thereunder in 2022, and every two years thereafter, unless said time frame is extended by the Commission in a subsequent reauthorization order. In no case will reauthorization be submitted by the Company to the Commission later than such time that PGE would have at least two years to refresh or replace an Unlimited credit facility with a Usual credit facility, without disruption to PGE liquidity and credit ratings should a future Commission Order so direct.

3. Aggregate Administrative Agent and Co-Syndication Agent Banks' one-time arrangement and syndication fees may not exceed 35 basis points (bps) of the amount specified in Condition 1 – Note that this excludes extension fees described in Condition 2. Also, the administrative agent's (passed through) one-time out of pocket, legal counsel, and miscellaneous expenses may not exceed an additional $250,000, and its annual administrative fee may not exceed $50,000 per year.
4. Each participating bank's one-time upfront fee (not including arrangement and co-syndication agent fees) may not exceed 20 bps of that bank's initial commitment amount, in addition to amounts shown in Condition 3 above. In addition, LC fronting fees shall not exceed 0.20 percent per annum of the amount of each LC issued and outstanding under the credit facility and additional LC fees shall not exceed $9,250,000 in aggregate annually. The Company will demonstrate that the resulting all-in cost of each type of LCs (if any) is market competitive against other approaches available to the Company.
5. Each bank’s annual facility fee, and interest rate spreads (above the benchmark variable rate) for variable rate borrowing will not exceed the amounts and spreads shown respectively in Attachment A for PGE’s prevailing credit ratings.
6. Authority for the up to $600 million credit facility authorized in Docket No. UF 4272(2) by Commission Order No. 13-069 (Prior Credit Facility), is terminated and replaced upon close or adjustment of the new Credit Agreement, following the issuance of an authorizing Commission Order in this docket.
7. Under the Credit Agreement, the Company must maintain a consolidated indebtedness to total consolidated capitalization ratio of 65 percent or less.
8. PGE will supplement its filing with the Commission within 30 days of each execution of a change or modification of the Credit Agreement, with the executed Credit Agreement, a report demonstrating all fees, interest rates (showing spreads over benchmark securities where applicable), and expenses consistent with contemporaneous competitive market prices for such credit agreements.

Proceeds must be used for lawful utility purposes authorized by ORS 757.415.

The Company will file a single itemized annual report with the Commission within 60 calendar days after the end of each calendar year addressing PGE credit facilities and LC outstanding under the Credit Agreement for any part of that calendar year.[1] Each report will be accompanied by a single electronic MS Excel workbook, with all cell references and formulas intact and provided on a single memory storage device, and will include quarterly information for the prior year for each outstanding credit facility, showing actual costs and benchmarks employed (discussed herein) experienced over the prior year.

This quarterly information will include: outstanding balances of revolving credit, LCs issued, total interest accrued, and itemized fees paid. Reporting will continue as long as PGE has a credit facility outstanding for any portion of a given calendar year.

9. The Commission reserves judgment on the reasonableness for ratemaking purposes of the Company's capital costs, capital structure, and expenses incurred for security issuances. PGE has the burden of proof to demonstrate that the Company's financing activities; capital costs, including embedded expenses; and capital structure are just and reasonable.

DISCUSSION:

Issue

Whether the Commission should approve PGE's request to enter into a revolving line of credit agreement for a term of at least four years and up to five years, with the option to extend for two additional one-year periods, in an amount up to $600 million, with an initial facility commitment in the amount of $500 million, referred to herein as the Usual treatment.

Alternatively, whether the Commission should approve PGE's request to enter into a revolving line of credit agreement for a term of at least four years and up to five years, with the option to extend for unlimited one-year extensions subject to periodic reauthorization, Unlimited option.

Applicable Rule or Law
The Company filed its application pursuant to Oregon Revised Statute (ORS) 757.410 and 757.415, and Oregon Administrative Rule (OAR) 860-027-0030.

[1] A single annual report for calendar year 2019 will address all quarterly activity authorized by a Commission order issued pursuant to this docket, No. UF 4272(3).

Under ORS 757.415(1), a public utility may issue stocks and bonds, notes and other evidences of indebtedness, certificates of beneficial interests in a trust and securities for the following purposes:

(a) The acquisition of property, or the construction, completion, extension or improvement of its facilities.

(b) The improvement or maintenance of its service.

(c) The discharge or lawful refunding of its obligations.

(d) The reimbursement of money actually expended from income or from any other money in the treasury of the public utility not secured by or obtained from the issue of stocks or bonds, notes or other evidences of indebtedness, or securities of such public utility . . .

(e) The compliance with terms and conditions of options granted to its employees to purchase its stock, if the commission first finds that such terms and conditions are reasonable and in the public interest.

(f) The finance or refinance of bondable conservation investment as described in ORS 757.455 . . . .

However, an order of the Commission is required before a public utility may issue stocks and long-term bonds (of duration more than one year), notes or other evidences of indebtedness, and any security. ORS 757.410. The Commission may grant permission for the amount requested by the public utility, for a lesser amount, or for none at all. Further, the Commission may include in its order such conditions to approval that it deems reasonable and necessary. ORS 757.430.

Application requirements and a list of exhibits that must be attached to the public utility's application are set forth in OAR 860-027-0030.

<u>Analysis</u>

Background

On December 14, 2018, PGE filed an application (Application) under Oregon Revised Statutes (ORS) 757.400 et seq., and Oregon Administrative Rule (OAR) 860-027-0030 requesting authorization to enter into a new, refreshed or extended Credit Agreement having an initial term of up to five years in an amount up to $500 million, with Unlimited one-year extensions to help mitigate future financial risks.

On February 10, 2015, the Commission authorized PGE to consolidate its $300 million and $400 million revolving Credit Agreements into a single comprehensive $500 million.[2] Under Commission Orders Nos. 13-099, 13-354, 13-224, 15-145, and 17-087, PGE also is authorized to enter into agreements with commercial banks for the issuance of up to $220 million in LC through credit reimbursement agreements.

Current Credit Authorization:

Order No. 15-041:	$500 million	(Docket No. UF 4272(2))* **
	$500 million	*Comprehensive Revolving Credit* * With Accordion Feature expansion to $600 million ** Initially, with **two one-year extensions**
Order No. 13-099	$25 million	(Docket No. UF 4277)
Order No. 13-354	$5 million	(Docket No. UF 4277(1))
Order No. 13-224	$30 million	(Docket No. UF 4279)
Order No. 15-145	$100 million	(Docket No. UF 4292)
Order No. 17-087	$60 million	(Docket No. UF 4301)
	$220 million	*Restricted to LCs*

Proposed Credit Authorization:

Pending:	$500 million	(Docket No. UF 4272(**3**))* **
No Change in Size	$500 million	*Comprehensive Revolving Credit* * With Accordion Feature expansion to $600 million ** With **unlimited one-year extensions**
Order No. 13-099	$25 million	(Docket No. UF 4277)
Order No. 13-354	$5 million	(Docket No. UF 4277(1))
Order No. 13-224	$30 million	(Docket No. UF 4279)
Order No. 15-145	$100 million	(Docket No. UF 4292)
Order No. 17-087	$60 million	(Docket No. UF 4301)
No Change in Size	$220 million	*Restricted to LCs*

[2] See Commission Order No. 15-041 entered February 10, 2015 in Docket UF 4272(2).

Securities Covered by This Application
PGE 's Application proposes that Unsecured Notes may be issued with an initial term of five years (extendable for Unlimited additional one-year periods) up to an aggregate amount of $500 million initially, which may be increased by a maximum of $100 million (Accordion) for an aggregate amount of $600 million. Notes are not convertible and have no voting privileges. If the Commission instead authorizes the Usual option, PGE would then have two one-year extensions for this debt carrying capacity. For either option, an extension is subject to 50 percent ongoing bank threshold participation.

All borrowings accrue interest at floating rates. PGE may choose whether borrowings accrue interest at the Alternate Base Rate (ABR) or the Eurodollar rate. The Company may prepay ABR loans in a minimum amount of $1 million without premium or penalty at any time and may prepay Eurodollar loans in a minimum amount of $1 million but "will have to pay breakage charges and costs if prepaid on a date other than the end of an interest period."

Letters of Credit may be issued in an aggregate amount up to $150 million outstanding at any one time.

Swing Line Loans may also be available on a same day basis in an aggregate amount not exceeding $40 million and in minimum amounts of $500,000.[3] The Company may be required to repay a swing line loan within five business days.

Borrowing Mix
PGE's Application proposes that PGE may draw down on the Credit Agreement, subject to a minimum borrowing of $5 million and a maximum borrowing of $600 million at rates and spreads shown in Attachment A. The Credit Agreement may be used primarily to back the Company's commercial paper program and to provide counterparty assurance of adequate liquidity – through LC where usual or necessary.

Extensions Authorized Beyond the Initial Term
An Order granting authority as described in the caption of this report will authorize the Company to enter into a revolving credit agreement for a term of up to five years, with up to two one-year extensions. This Credit Agreement may be extended either A: two or B: Unlimited one additional year at no additional upfront cost other than a de minimus cost for legal documentation, depending on the Commission's decision. Two examples (of the Usual option) illustrating how extension of the Credit Agreement works are:

[3] Swing Line loans tend to be used for paying debts due or other maturing obligations rather than asset acquisition or ongoing expenses like those for operations and maintenance. This is an authorized use of the Credit Agreement consistent with utility purposes that allows for quick retirement of other loans, allowing the Company time to structure more efficient and lower-cost longer-term financing. Often it is this ability rather than actual draw of funds that reassures counterparties as to the Company's liquidity position.

Example 1: PGE does not extend the Credit Agreement at the end of the first year. The Credit Agreement becomes a four-year revolving credit facility.

Example 2: Credit Agreement is extended twice, in both the second and fourth years. The Credit Agreement continues to have a three-year term in year four.

For the Usual option, the maximum aggregate term of the Credit Agreement with application of both of the one-year extension options is seven years.

For the Unlimited option, the maximum term of the Credit Agreement is indefinite.

A single extension under either option would incur the standard cost of up to 15 bps of the credit facility commitment size. Again, the 50 percent bank participation threshold to extend is the same under either option.

Should the Commission Order authorize Unlimited one-year extensions, the Commission may in a future Reauthorization Order direct PGE to shift back to a usual duration of 5 years plus two one-year extensions. Such reauthorization is necessary because for some time it will be too early to tell if there are actual cost savings or any change to net expense for ratepayers. In adverse market conditions, the Unlimited option may afford useful flexibility and protection from a ratepayer perspective.

However, there is no precedent identified by Staff that demonstrates the long-run cost profile of unlimited refreshment. There is not another U.S. state commission who has authorized and studied the relative cost and benefit of unlimited one-year extensions. Staff is aware of another utility that is pursuing utilizing the unlimited refreshment for regulated utility liquidity. Where financing is more uncertain in Eastern Europe, there is some precedent for more extensions to avoid political and market disruptions. Use in Croatia for example may be indicative of risk mitigating aspects of having more available extensions.

Financial institutions participating in the credit facility with the Unlimited option could still prefer that option from a net present value (NPV) time value of money perspective. A bank may generally prefer to have regular annual cash flows, even if these are relatively small, than to wait up to five years and then get the same total face value later. An additional positive from the perspective of participating banks is a relatively higher switching cost for the Company. With unlimited refreshment in place, PGE would have to spend time and effort to switch to another lead arranging bank with other participants. Similarly, the lead arranging bank would be pleased to see other participating banks fall into a groove of rather automatic refreshment for a proven, relatively low-risk arrangement. That makes the lead arranging bank's coordination tasks easier and all-around success more likely.

Historically during substantial portions of World Wars I and II, the Korean War, and the Vietnam War, following the 2001 attacks on the World Trade Center and Pentagon, in 2008 to 2010, and at other times, financial markets have been stressed. As an example, after victory in World War I, it was likely unthinkable that there would be a period where Germany would occupy France, the US fleet at Pearl Harbor would be heavily damaged, and most major news would be bad news from a U.S. perspective. Indeed, one may stop to note that in times of back-to-back Allied Powers defeats, financial markets plummeted below levels in the Great Depression. Presumably following a Cascadia Subduction Zone earthquake or similar traumatic modern event, financial markets would also be stressed. Such future stressful events are highly uncertain and resistant to quantitative analysis. However, these low-probability extreme events are not without possibility. Very high impact, low frequency events may be mitigated in part by the Unlimited option – making PGE more financially resilient. As one might expect setting up such resilient liquidity is much cheaper when such future financial market stressing events are seen as unlikely, if not unthinkable. Conversely, such events might not occur over the next hundred years.

Credit Ratings

While the Credit Agreement will not require a rating, its fees are based on PGE's unsecured credit ratings. PGE has been working to improve its Standard and Poor's (S&P) and Moody's credit ratings. On July 18, 2018, S&P upgraded PGE's issuer credit rating one notch from BBB to BBB+ and kept PGE on positive outlook. The Company's current ratings are as follows:

	S&P	**Moody's**
First Mortgage Bonds (FMB)	A	A1
Senior Unsecured	BBB+	A3
Commercial Paper (CP)	A-2	P-2
Outlook	Positive	Stable

Because the requested Credit Agreement provides a majority of the Company's primary financial liquidity, authorization to borrow under the Credit Agreement is not terminated solely based on any particular credit rating. The Credit Agreement will not require a specified minimum credit rating. PGE 's senior unsecured long-term debt ratings or senior secured debt rating, as applicable, from Moody's Rating Services (Moody's) and Standard and Poor's (S&P), will affect both bank annual commitment fees and borrowing spreads, each of which is capped for the applicable credit rating as shown in Attachment A. When a given rating agency provides no senior unsecured long-term debt credit rating for the Company, that rating agency's senior, secured long-term debt rating reduced one grade will apply. When Moody's and S&P do not provide the same comparable rating, but disagree by only one grade, the higher credit rating will apply. When such disagreement is more than one grade, the higher rating reduced one grade will apply.

PGE's current Credit Agreement is based on PGE's current ratings, but does not capture all savings from cost reductions were PGE to succeed over time in substantially improving its credit ratings. Under the Usual refreshment, PGE would renegotiate its credit facility within five to seven years. However, with Unlimited one-year extensions PGE and its customers may merit cost reductions based on credit ratings or other yet to be quantified cost savings or competitive pressures. For these reasons, the Unlimited option provides for periodic Commission reauthorization at times designed not to expose PGE to avoidable market stress.

Changes since the Last Commission Authorization

Outlook if Credit Ratings Improve

Of concern to Staff is Moody's approach to the impacts of the Tax Reform and Jobs Act of 2017. While one might expect lower taxes would be inherently positive news for utilities, Moody's has focused in on cash flow metrics that are stressed by the recent tax reform. Timely refreshment of this credit facility while PGE is under no heavy time or market pressure is consistent with provision for ongoing liquidity in support of current credit ratings. While approval of this Application does not by itself answer all of Moody's concerns regarding tax reform impacts on the utility sector, the proposed replacement credit facility is consistent with prudent financial management by the Company and will likely be seen as credit positive by both Standard and Poor's and Moody's. As the spreads over benchmark interest rates applicable to PGE depend on the level of the Company's credit ratings, this will be an area for the Commission to continue to monitor.

Reduced Support for Letters of Credit (LC)

Investment Banks are no longer treating LCs as loss leaders.[4] This is because of internal collateral holding requirements. However, Staff recommends that the

[4] A loss leader is a product or service that is offered at a price that is not profitable, but is sold or offered in order to attract new customers or to sell additional products and services to those customers. While this was common practice at Investment Banks a decade ago, it has become rarer of late.

Commission view PGE as a utility in less need of new incremental support for LC's in support of activities like guarantees of land restoration and environmental remediation after the end of useful lives of new facilities than many peer investor owned utilities. PGE has proactively assembled $220 million in alternative facility support as itemized above, reducing the Company's reliance on its sole full service revolving credit facility.

Decline of the London Interbank Offering Rate (LIBOR)
LIBOR appears to be set for elimination by the end of 2021 as announced by British regulators on July 27, 2018. This is in response to scandal surrounding the actual management of information flows between pertinent investment banks. Staff recommends the Commission be hesitant to presume a given winner in the contest between contending benchmarks seeking to be the LIBOR replacement (that are now being built into contracts for everything from adjustable rate loans to credit card and revolving credit facility agreements). Staff recommends flexibility in benchmarks, provided there is no incremental increase in cost to the Company or its utility ratepayers.

PGE will monitor a trending alternative to LIBOR, the Secured Overnight Financing Rate (SOFR) which is published each business day by the Federal Reserve Bank of New York in cooperation with the U.S. Treasury Department's Office of Financial Research. SOFR is based on actual cash flows and may be harder to manipulate than LIBOR, which is based on estimates submitted by participating banks. This rate is also referred to as the New York Federal Reserve Bank (NYFRB) rate.

Increase in Arrangement Fees
Arrangement fees have increased in recent years. Essentially, the primary coordinating banks have successfully insisted on somewhat more compensation than banks that participate but are not responsible for developing the framework and anchoring the revolving credit facility that other banks or financial institutions may also participate often at a lower level of commitment. In general, as certain investment bank activities are on less profitable trajectories than in the past, banks are looking for higher syndication arrangement fees.[5]

Continued Focus on Geographic and Institutional Diversity of Facility Participants
PGE is committed to avoiding concentration risk in its full service Credit Arrangement.[6] To illustrate the need for this vigilance, Lehman Brothers Holdings, Inc. (Lehman) was a global financial services firm before filing for bankruptcy in 2008. Lehman was the fourth largest bank in the U.S. and its marketing offered the enticing proposition:

[5] Arrangement fees can be considered very literally as fees for coordinating and structuring a credit facility so that potential members of a financial syndicate see a structure ready for them to participate in.
[6] See Table B for PGE's current revolving credit facility (revolver) participants on page 4 of the Application of Portland General Electric (UF 4272)(3).

concentrate business with Lehman and save substantially in overall costs and fees. Such reduced costs were hard to resist and many clients concentrated business with Lehman and for some years realized marked savings. But with the Lehman bankruptcy that concentration meant clients suddenly were exposed to spiking costs to arrange new credit facilities in adverse market conditions. At that time, it became apparent that over-concentration carried more risks offsetting potential immediate cost reductions.

While participation in PGE's revolver may change from time to time, a snapshot of PGE's current participation is provided below:

Bank	Allocation US$ Millions	Credit Ratings		Total Assets US$ Billions
		S&P	Moody's	
Wells Fargo Bank	83.5	A+	A2	1.952
Barclays Bank	83.5	A	A2	1.438
JP Morgan Chase	83.5	A+	Aa1	2.082
U.S. Bank	83.5	AA–	Aa1	0.456
Bank of the West	27.0	A–	Aa3	0.222
CoBank, ACB	27.0	AA-	N/A	0.129
The Northern Trust Co.	27.0	AA–	A2	0.139

Please note that PGE's facility is not overly reliant on any one bank in any one area.

Other Analysis

Use of Proceeds
PGE's Application proposes that, if requested, PGE may issue notes to banks participating in the Credit Agreement for amounts equal to the individual bank's commitment level. The Company may also use the Credit Agreement for any utility purpose authorized by ORS 757.415; e.g., the low cost credit and liquidity enhancement of:

1. PGE construction, operations and maintenance (O&M), and other contracts;
2. Issuance of commercial paper and other short-term Debt;
3. Low cost trading collateral in lieu of maintaining cash deposits or balances; and
4. Replacement of other financing vehicles in adverse market conditions.

Use of this credit facility bolsters access to markets, reduces financing costs, and avoids cash deposits which could be at risk in the event of counterparty bankruptcy. However, the primary purpose of this Credit Agreement is to provide liquidity backup to PGE's commercial paper program, allowing the Company to borrow at lower short-term rates. These commercial paper rates are lower cost than using the revolving credit facility at the rate below, which vary based on the Company's credit ratings.

PGE's commercial paper may be issued in $1,000 increments, subject to a minimum issuance of $100,000. Maturity of the Company's commercial paper does not exceed 270 days from issuance. The Credit Agreement provides backup liquidity for PGE's commercial paper, making it a generally acceptable and attractive security for investors to hold. This is a good example of how the availability of the Credit Agreement, even without drawing down on it, reduces the cost of the Company's unsecured, short-term securities to finance utility operations including accounts payable, inventories, and meeting short-term liabilities. Having access to adequate liquidity, makes PGE a better customer and trading counterparty, allowing the Company to deliver reliable utility services at lower cost to its ratepayers.

Estimated Expenses
PGE represents in its Application that fees and expenses incurred will be market-based costs typical for this type of facility. The Company is not required to subject the Credit Agreement or related LCs to competitive bidding. However, PGE must still demonstrate in reporting and in subsequent general rate cases that fees and expenses incurred reflect competitive contemporaneous market conditions.

Note that the upfront fees are paid at the onset of the initial five-year period. In contrast, the commitment fees are paid quarterly, but shown for simplicity as an aggregate annual cost.

Staff recommends that the Commission view the Company's continued use of investment banks that are capable, well-situated, geographically and institutionally diversified, and familiar with PGE's business and regulatory environment as in the public interest in lieu of seeking lower prices through banks not well-known to the Company's trading counterparties. Through the use of clearinghouse investment banks, PGE is broadly perceived to have quality liquidity. Layering smaller regional banks on top of that backbone of large clearing house banks potentially lowers aggregated facility costs.

The Company's approach has controlled the need for LCs and reduced the aggregate cost thereof to the benefit of ratepayers. Further, in a time of market stress, the credit quality and reputation of the clearinghouse investment banks ensures the Company's liquidity and avoids unpleasant financial shocks for ratepayers. The estimated fees for the facility are provided in the following table.

Estimated Fees	Estimated Cost	Percent of Total (Initial $500 million)
Commitment Fees (Facility Fees)	$2,500,000	0.500%
Extension Fee	**$415,000**	**0.083%**
Administrative Agent Fee	**$50,000**	**0.010%**
Upfront Fees (Enabling LCs)	**$100,000**	**0.200%**
Arrangement Fees	**$165,000**	**0.033%**
Legal Fees for Full Replacement	$85,000	0.017%
Legal Fees to Agent (Out of Pocket Legal and Admin)	**$10,000**	**0.002%**
Counsel Fees	**$25,000**	**0.005%**
Miscellaneous Expenses (e.g. freight, postage, travel)	**$5,000**	**0.001%**
Total Replacement Expenses	Cap $5 million	Cap 1%
Extension Year Fees and Expenses	About $770,000	Cap 15 bps

In the above estimate totals, Upfront Fees in bold red above of up to 20 bps to enable the issuance of LC are **not included** in the 15 bps ceiling for one-year extensions. Bold black costs are incurred whether one is replacing the whole facility or extending it for one year. Bold Blue Costs are incurred in extending the Credit Facility by one-year in lieu of the higher Legal Fees for Full Replacement and Commitments Fees (Facility Fees) shown.

Timing of Replacement Credit Facility

The time to refresh or update a revolving credit facility is when the market is stable, the Company's credit position and financial condition are strong, and PGE is under no pressure in negotiations to quickly agree to any particular arrangement. Staff supports the Company's timing of its replacement credit facility and suggests that the Commission view now as a good time to refresh the Company's revolving credit facility. Retaining at least one contingency year on a credit facility is expected by rating agencies as the type of prudent fiscal management necessary to sustain the Company's ratings.

Reasoning Supporting Authorization for Two One-Year Extensions.

Both Moody's and Standard and Poor's, as well as Staff, particularly like the inclusion of two one-year optional extensions to the Company's proposed replacement credit facility. These extensions serve three purposes. First, they act like alarm clocks reminding the Company that necessary activity on the credit facilities is approaching. Second, they signal to rating agencies and financial markets alike that PGE has flexibility in timing the replacement and will not likely be forced into an untimely decision under adverse market conditions. As a mental exercise, imagine one forced to refresh a credit facility in 2008 as opposed to one with the flexibility to wait until 2010 to finalize that set of negotiations. This flexibility sheds enormous potential risk for both the Company and its ratepayers. And third, rating agencies see this feature as an indicator that the Company financial management is fiscally sound and credit positive.

Reasoning Supporting Authorization for Unlimited One-Year Extensions.
Unlimited one-year extensions would also provide the benefits described above, in support of the two one-year extensions. How unlimited one-year extensions, as requested by PGE, would be viewed by Staff in the future depends on how they are used if authorized, and at what cost relative to facilities with two one-year extensions and like credit ratings. Under this scenario PGE would see Commission authorization to continue to borrow funds under the credit agreement periodically, continuing to provide the Commission with the controls and oversight under current authority.

Accordion Feature
Staff suggests that the Commission view the accordion feature as an excellent and cost-effective control. Rather than pay for the maximum size of credit facility the Company might conceivably need over the next five to seven years, this feature allows PGE to size the facility based on current operations, but build in the flexibility to scale up the Company's liquidity to meet future opportunities or challenges. This approach allows the Company and its ratepayers to pay for just what they need. The flexibility ensures that incremental liquidity is available should it be needed, but in the meantime, costs are contained. The accordion feature in this Credit Agreement acts like an insurance rider, available when needed, but incurring minimal cost until and unless needed.

Proactive Financial Management
Staff's review and comments may correctly be seen as supportive in this Staff Report. The features and cost controls are not found universally across all utilities that Staff benchmarks. In general, an absence of the kind of proactive financial management displayed here by PGE increases potential risk in any future adverse market conditions. Some utilities pay for more credit facility than they need, increasing costs to their ratepayers. Also, if one presumes that bull markets eventually become bear markets, then some utilities will not have the flexibility that is built into the proposed facility described herein and will have to refresh their credit facilities in adverse markets. These cost controls and flexibilities proposed by PGE are low-cost insurance for both investors and ratepayers when times are good. In a financial crisis, these features would be cost prohibitive or simply not available if not arranged beforehand.

Controls
Staff's recommended conditions are like those applicable to other jurisdictional utilities. However should Unlimited one-year extensions be authorized, PGE has more frequent reauthorization requirements. Those could be relaxed in the future, if the Unlimited option delivers benefits described herein at reasonable or reduced cost.

Commercial Paper is a short-term debt instrument issued by a corporation, in this case by PGE. In conjunction with the proposed revolving credit facility to guarantee adequate liquidity to cover any contingencies, commercial paper is a lower cost option than other types of financing for accounts receivables, inventories and meeting short-term liabilities. Because the maturities of this commercial paper are usually no more than 270 days, these amounts are not recorded in Oregon as Long-Term (LT) Debt and are not considered in determination of capital structure in general rate cases.[7] Again, the presence of the revolving credit facility affords the Company and its ratepayers the lower cost financing option of commercial paper. In turn, having a commercial paper program means that PGE does not have to regularly draw down on its revolving credit facility, further controlling costs.

Individual Borrowings under the Facility
Individual borrowing capability allows further certainty that PGE can arrange for the construction of the Company's facilities, address maturing LT Debt obligations and ensure adequate working capital is available to ensure reliable utility service to customers. Staff observes that the ability to borrow at controlled costs with certainty in the future can make a utility more desirable to do business with than other companies because many contingencies could be readily and inexpensively handled. PGE may borrow at the rates and spreads shown in Attachment A.

Staff Review Summary
After review of PGE's Application, Staff finds the general reauthorization terms reasonable and beneficial to ratepayers. The Company in its Application represents that funds obtained under this replacement Credit Agreement will be used solely for lawful utility purposes, which are delineated in applicable statues. Provisions of the new, refreshed, or extended Credit Agreement are largely unchanged and will do no harm.

Sizing of the Credit Agreement is consistent with PGE's prior similar revolving credit facilities and with the Company's demonstrated financing needs, and does not indicate any acceleration of or unplanned capital spending. Further, PGE built in reasonable cost controls and flexibilities into the replacement credit facility.

[7] See ORS 757.410 and ORS 757.415 (3) for the determination of LT Debt in Oregon.

Finally, the Company will submit a consolidated annual report in a MS Excel workbook showing quarterly activity for the proposed revolving credit facility.

However, PGE requests a new element – that of Unlimited rather than just the Usual two one-year optional extensions for this Credit Agreement. Staff sees no precedent with a long track record approved by another state commission available to inform the Commission. Projected relative costs between approaches depend almost entirely upon assumptions that may not match actual costs experienced over a 10- to 30 year time frame.

Thus Staff recommends the Commission weigh the strength of controls herein and either A: Approve refreshment of the Credit Arrangement for a term of up to 5 years with Usual up to two one-year extensions if the Commission finds Staff's proposed controls inadequate or that there is a lack of demonstrated need for Unlimited extensions, otherwise B: Approve the requested facility with unlimited one-year extensions primarily as a means to make PGE more financially resilient in adverse future conditions. No change in the size or other material characteristics of the current PGE credit facility portfolio is proposed.

Conclusion

Based on its review of this application, Staff concludes:

1. Usual refreshment is certain to benefit ratepayers.
2. Unlimited one-year extensions will make PGE more financially resilient and better able to deliver safe and reliable utility services in adverse future market conditions.
3. Should extreme events occur, Unlimited extensions could prove invaluable. However, by their nature, the timing and characteristics of extreme events are uncertain.
4. Under normal advantageous market conditions, unlimited extensions, may reduce some costs like legal fees. Staff and the Company will continue to work together to monitor fees associated with the revolver over time whichever option is selected by the Commission.

PGE's Credit Facility reflects the Company's current ratings. With much hard work, PGE may succeed in raising its credit ratings over time. Future reauthorization of any authorized use of unlimited extensions will need to examine whether all cost reductions and savings then available, are captured for ratepayer benefit. The Commission may also want to ensure that should Unlimited one-year extensions not prove efficacious, that timing of reauthorizations would allow a future Commission to direct PGE to return to the Usual framework. Conversely, the Commission may wish to reduce the frequency of reauthorizations for the Credit agreement with Unlimited one-year extensions after a future reauthorization review, if the Commission is then satisfied that cost reductions and cost-effective liquidity goals are well met.

PROPOSED COMMISSION MOTION:

Approve refreshment of PGE's Revolving Credit Agreement for a maximum commitment amount of $600 million, with an initial facility commitment of $500 million and for at least four years, with a maximum five-year maturity, subject to Staff's recommended conditions and reporting requirements herein with:

(Commission to select one of options below)

A: The option to extend for Usual and customary up to two one-year extensions.

Or,

B: The option to extend for Unlimited one-year extensions.

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Attachment A

Standard and Poor's (S&P) and Moody's (M) Credit Ratings															
← Also applies for higher credit ratings															→ Also applies for lower ratings and unrated
S&P	**M**	**S&P**	**M**	**S&P**	**M**	**S&P**	**M**	**S&P**	**M**	**S&P**	**M**	**S&P**	**M**	**S&P**	**M**
AA- or Above	Aa3 or Above	A+	A1	A	A2	A-	A3	BBB+	Baa1	BBB	Baa2	BBB-	Baa3	Ba1 or Below	BB+ or Below
Applicable Margin for Eurodollar Loans *															
← 100.0 bps		100.0 bps		100.0 bps		100.0 bps		107.5 bps		127.5 bps		147.5 bps		165.0 bps →	
Annual Facility Fees															
← 12.5 bps		12.5 bps		12.5 bps		12.5 bps		17.5 bps		22.5 bps		27.5 bps		35.0 bps →	
Applicable Margins for ABR Loans															
← 0.0 bps		0.0 bps		0.0 bps		0.0 bps		7.5 bps		27.5 bps		47.5 bps		65.0 bps →	
Letter of Credit Fees **															
← 100.0 bps		100.0 bps		100.0 bps		100.0 bps		107.5 bps		127.5 bps		147.5 bps		165.0 bps →	

* The Margin above for Eurodollar Loans is not All-In-Drawn. The All-In-Drawn rate is the Margin plus the Facility Fee.
** LC cost above will match the applicable Eurodollar margin

Annual Facility Fees: A bank's annual facility fee may not exceed the above bps of average commitment amounts based on Standard and Poor's (S&P) and Moody's (M) rating on PGE' unsecured debt in effect in the relevant period.

Eurodollar Rate Borrowing: The rate associated with fixed-rate borrowing under the Credit Agreement will not exceed the applicable 1-, 2-, 3-, or 6-month maturity Eurodollar Rate plus the above margin or spread based on S&P or Moody's rating on PGE 's unsecured debt or secured debt, as applicable, in effect on the day of borrowing.

Alternate Base Rate (ABR) Borrowing: The rate for floating rate borrowing is equal to the sum of the quotient of LIBOR applicable for a one month U.S. dollar deposit on such day divided by one minus the Reserve Requirement applicable to a Eurodollar Advance with a one-month Interest Period plus 100bps.