

ORDER NO. 21-273

ENTERED Sep 07 2021

**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON**

UF 4323

In the Matter of

PORTLAND GENERAL ELECTRIC
COMPANY,

Request to Extend the Maturity of a
Revolving Credit Agreement by 2.8 Years
Through September 2026 and Increase Its Size
up to \$650 Million, or \$750 Million Inclusive
of the Accordion Feature.

ORDER

DISPOSITION: STAFF'S RECOMMENDATION ADOPTED

At its public meeting on September 7, 2021, 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:



A handwritten signature in blue ink, appearing to read "Nolan Moser", is written over a horizontal line.

Nolan Moser
Chief Administrative Law Judge

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. CA1

**PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: September 7, 2021**

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

DATE: August 27, 2021

TO: Public Utility Commission

FROM: Curtis Dlouhy

THROUGH: Bryan Conway, John Crider, and Matt Muldoon **SIGNED**

SUBJECT: PORTLAND GENERAL ELECTRIC:
(Docket No. UF 4323)
Request to extend the maturity of a revolving credit agreement by 2.8 years through September 2026 and increase its size up to \$650 million, or \$750 million inclusive of the accordion feature.

STAFF RECOMMENDATION:

Staff recommends the Commission approve Portland General Electric's (PGE or Company) application subject to the following nine conditions and reporting requirements:

1. *Authorization Limit*

Sum of borrowing principal and Letters of Credit (LC) under the Revolving Credit Facility (Credit Agreement) shall not exceed \$650 million initially, and not more than \$750 million inclusive of all accordion features, at any one time.

2. *Term of the Credit Agreement*

The term of the Credit Agreement will be up to five years with unlimited one-year extensions, much like what was approved in Order No. 19-025. Under Order 19-025, the Company was required to return to the Commission every two years starting in 2022. Under a new order in this docket, the Company would need to return to the Commission on these matters every two years starting when the revised Credit Facility matures, is updated, or is replaced, whichever comes soonest.

3. *Fees and expenses will be limited to those listed below:*

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- a. One-time aggregate arrangement fees may not exceed 15 basis points (bps) of the amount specified in Condition 1.¹
- b. Passed through one-time out-of-pocket miscellaneous expenses, and lenders' counsel fees may not exceed an additional \$275,000, and the annual administrative agency fee may not exceed \$50,000 per year.
- c. Aggregate one-time fees and expenses for each one-year extension of the credit facility (including but not limited to arrangement fees, upfront fees, out-of-pockets expenses and lenders' counsel fees) may not exceed 15 basis points (bps) of the amount specified in Condition 1.
- d. Each participating bank's one-time upfront fee (not including arrangement fees) may not exceed 20 bps of that bank's final allocated amount, in addition to amounts shown in Condition 3 above.
- e. LC fronting fees shall not exceed 20 bps per annum of the amount of each LC issued and outstanding under the credit facility. LC participation fees will not exceed the amounts shown respectively in Attachment A.
- f. Each bank's annual commitment fees, and costs of variable rate borrowing and fixed rate borrowing will not exceed the amounts and spreads shown respectively in Attachment A.

4. *Withdrawal of Prior Authorization*

Authority for the up to \$600 million aggregate credit facilities authorized in Docket No. UF 4272 by Commission Order No. 19-025 (Prior Credit Facility) is terminated upon close and execution of the new Credit Agreement.

5. *Balanced Capital Structure*

Under the Credit Agreement, the Company must maintain a consolidated indebtedness to total consolidated capitalization ratio of 65 percent or less.

6. *Use of Proceeds*

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

7. *Key Performance Indicator Measures*

Any change in pricing due to the company's performance in relation to specified Key Performance Indicators may not exceed plus or minus 10 bps per annum.

8. *Timely Reporting*

- a. PGE will file a certified copy of the executed Credit Agreement with the Commission within 30 calendar days after close, with a report demonstrating all

¹ Sample calculation for reference: \$650,000,000 times 0.15 percent. Fee may not exceed \$975,000.

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fees, interest rates (showing spreads over benchmark securities where applicable), and expenses are consistent with contemporaneous competitive market prices for such credit agreements.

- b. The Company will maintain an electronic MS Excel spreadsheet, with all cell references and formulas intact capturing quarterly information for each outstanding credit facility. This quarterly information will include: outstanding balances of revolving credit, LCs issued, total interest accrued, and fees paid. Data capture will continue as long as PGE has a credit facility outstanding for any portion of a given calendar year. In lieu of periodic reporting, PGE will provide this data to Staff upon request.

9. *Reservation of Judgment Regarding Reasonableness*

The Commission reserves judgment on the reasonableness for ratemaking purposes of the Company's capital costs, capital structure, and commissions 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 extend the maturity of a revolving credit agreement by 2.8 years through September 2026 and increase its size up to \$750 million, with an initial facility commitment of \$650 million.

Applicable Rule or Law

ORS 757.405 provides the Commission with the authority to regulate the issuance of utility securities.

ORS 757.410 requires public utilities to obtain Commission approval prior to issuing notes or other evidences of indebtedness.

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ORS 757.415 sets forth the purposes for which a public utility may issue notes and other evidences of indebtedness,² and outlines the contents of a Commission order authorizing the issuance of securities by a public utility.

ORS 757.420 requires an application for a Commission order approving the issuance of securities to be given priority, and be disposed of within 30 days after the filing of the application, unless the public utility consents to the extension of that period.

ORS 757.430 provides that the Commission may include in its order conditions to approval that it deems are reasonable and necessary.

OAR 860-027-0030 specifies the requirements for rate-regulated water utility to issue securities, and the exhibits that must be attached to the public utility's application.

Analysis

On July 20, 2021, PGE filed an application (Application) under ORS 757.410(1) and OAR 860-027-0030 requesting authorization to extend the maturity of its current Credit Agreement through September 2026 and increase the initial facility size from \$500 million up to \$650 million.

The Company expects to close the extended and amended Credit Agreement in September 2021 related to the revolving credit facility in March 6, 2015, or soon thereafter. Approval of this application will permit PGE to extend this credit facility annually as long as banks comprising at least 50 percent of commitments agree.

Staff met with the Company to clarify various points of the filing. PGE notes that the Company last looked at the size of its Credit Agreement in 2015 and that its Prior Credit Facility lags behind its peers. While the Credit Facility is not drawn upon often, the Company notes that the Credit Facility is used as a backstop when engaging in the commercial paper market.

At close, the Company will have \$650 million in total aggregate credit, with an accordion feature option allowing enlargement to \$750 million.

The requested Credit Agreement replaces PGE's current authority under Order No. 19-025, entered January 23, 2019, in Docket No. UF 4272, which permits the Company unlimited one-year extensions to borrow up to \$500 million.

² Such purposes include the acquisition of property; construction, completion, extension or improvement of facilities; improvement or maintenance of service; and discharge or lawful refunding of obligations.

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Subject to the recommended conditions as provided herein, the proposed issuance satisfies the Commission's and the statutory criteria. Below is a comparison between the current authorized revolving credit facility and the proposed

<u>Docket No.</u>	<u>Initial \$ Amount</u>	<u>Maximum \$ Amount</u>
UF 4272	\$500 million (Current)	\$600 million
UF 4323	\$650 million (Proposed)	\$750 million
	\$650 million (At Close)	\$750 million

Other Securities Covered by This Application

PGE may choose either fixed or floating borrowing rates. The Company may repay Alternate Base Rate (ABR) loans in a minimum amount of \$1 million without premium or penalty at any time and may repay Eurodollar loans in a minimum amount of \$1 million without premium or penalty at the end of an interest period.³

Letters of Credit

Letters of Credit may be issued in an aggregate amount up to \$650 million outstanding at any one time, and \$750 million in the aggregate if the credit facility is subsequently increased by \$150 million.

Extensions Authorized Beyond Initial Term

The Credit Facility will have an initial term of up to five (5) years through September 2026 with an option to extend the term up to one year if the Applicant and participating banks comprising 50 percent of commitments agree.⁴ Costs for extending the Credit Facility beyond the initial five-year term must comply with Condition 3.

Credit Ratings

<u>PGE's Current Credit Ratings</u>	<u>S & P⁵</u>	<u>Moody's</u>
First Mortgage Bonds	A	A1
Senior Unsecured	BBB+	A3
Commercial Paper	A-2	P-2
Rating outlook	Stable	Stable

The Credit Agreement will not require a rating, but its costs are directly driven by the Company's credit ratings. PGE's debt ratings from Moody's and Standard and Poor's

³ See Attachment A for detail of borrowing costs and spreads.

⁴ There are eight banks participating in the Credit Agreement.

⁵ S&P refers to Standard & Poor's Rating Service, a division of The McGraw-Hill Companies, Inc., while Moody's refers to Moody's Investors Service, Inc.

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affect both the credit facility fee and borrowing spreads, each of which is capped for the applicable credit rating.

Use of Proceeds

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, including:

- The acquisition of property, or the construction, completion, extension or improvement of its facilities;
- The improvement or maintenance of its service;
- The discharge or lawful refunding of its obligations;
- The reimbursement of money actually expended consistent with 757.415(1)(d); and
- For such other purposes, as permitted by law.

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.

Accordion Feature

Staff continues to view the accordion feature as an excellent cost-control measure. Rather than pay for a credit facility up the full size, the accordion allows the Company to size their Credit Agreement based on the needs of the Company at the time, thus containing unnecessary costs when added liquidity is not needed.

Key Performance Indicator Feature

Unlike the Company's existing Credit Agreement, the proposed Credit Agreement contains Key Performance Indicators (KPI) tied to its Environmental, Sustainability, and Governance (ESG) goals. The Company proposes including KPI with its proposed Credit Agreement: one of which is focused on its environmental goals and the other of which is focused on its management diversity goals.

The KPI both contain a quantifiable target for each goal that adjusts pricing down if met and a threshold that adjusts pricing up if the Company fails to meet a threshold. Each met target provides a discount of 2.5 bps of drawn funds and .5 bps of undrawn funds. A failure to meet a threshold raises costs by 2.5 bps of drawn funds .5 bps of undrawn funds. Any changes to costs based on KPI reset each year, meaning that the maximum discount or premium to borrowing costs is 5 bps each year.

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The first KPI measures the Company's non-emitting generation capacity relative to its forecasted capacity for 2021-2025. In order to receive the 2.5 bps discount each year, the Company's nameplate capacity plus Power Purchase Agreements (PPA) from non-emitting sources must exceed 5 percent of its forecast. In order to avoid a rise in borrowing costs, the Company's nameplate capacity plus PPAs in a given year must be no less than 95 percent of the forecasted value for that year. Table 1 contains the forecast, targets and thresholds for this goal.

TABLE 1

Year	Target (MW)	Forecast (MW)	Threshold (MW)
2021	>2,306	2196	<2,086
2022	>2,472	2355	<2,237
2023	>2,614	2489	<2,365
2024	>3,030	2886	<2,742
2025	>3,027	2882	<2,738

>Indicates greater than, < indicates less than

The Company's second KPI measures the diversity of the Company's management, as measured by the proportion of management positions that self-identify as female or minority. This is calculated by averaging the percent of women in leadership representation and the percent of leadership representation with marginalized racial identities outlined in PGE's updated filing.⁶ The Company avoids paying a premium if this measure stays above 23 percent in a given year. The target to receive a discount is met if the Company sees a 2 percent increase in this measure in a given year and the measure stays above 27 percent. Table 2 contains the targets, forecasts and thresholds for these goals.

⁶ See Page 9 of the Company's Amended Filing.

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TABLE 2

Year	Target (MW)	Forecast (MW)	Threshold (MW)
2021	Increase by >2% and over 27%	27%	Fall below 23%
2022	Increase by >2% and over 27%	29%	Fall below 23%
2023	Increase by >2% and over 27%	31%	Fall below 23%
2024	Increase by >2% and over 27%	33%	Fall below 23%
2025	Increase by >2% and over 27%	35%	Fall below 23%

The Company demonstrates that the value of this by showing the potential cost savings of hitting both KPI in a given year would result in savings of \$32,500 if no funds were drawn and \$37,500 if \$25 million were drawn. Savings would be double these amounts if both KPI targets are met, and added costs would be analogous if the Company fails to meet one or both KPI thresholds.

In its amended filing, the Company's forecasts project that it will stay between the target and the threshold for its first KPI and meet its target for the second KPI on a typical year, meaning that the Company would receive a 2.5 bps reduction in the pricing of its Credit Agreement.

The Company provides the draft resolution approving the proposed Credit Agreement by its board of directors subject to the Commission's approval. In it, the board of directors approves adjustments to the interest rate margin up to 100 bps in either direction based on performance relative to KPI and subject to approval by an authorized officer. Although the Company's filing stated that the KPI can only adjust the base interest rate by plus or minus 5 basis points, Staff recommends imposing a cap on the possible effect of KPI on the Company's margins at no more than 10 bps per year.

The Company has had the opportunity to review this memo and is supportive of Staff's recommendations.

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Conclusion

The Company represents that funds obtained under this amendment to the existing Credit Agreement will be used solely for ongoing lawful utility purposes. The Company agrees, after review of this Staff Report, that the proposed conditions will allow PGE all necessary flexibility to negotiate favorable market fees and margins.

Staff's review of PGE's Application finds the terms reasonable and, subject to the recommended conditions as provided herein, the proposed issuance satisfies the Commission's rules and the statutory criteria. Sizing of the Credit Agreement is consistent with the Company's prior similar revolving credit facilities and with the Company's demonstrated financing needs. Approval of PGE's application will do no harm to ratepayers, investors, or the Company, and the proposed issuance is consistent with the requirements of ORS 757.415(2).

Staff finds that market conditions are favorable for the Company's refreshment of its credit facility at this time. The Company noted in its initial filing that renewing its Credit Agreement in 2020 was not in its best interest.⁷ Staff also notes that market and societal uncertainties around the COVID-19 pandemic last year led to investment banks to be most conservative and demand high risk premiums. Due to the supportive efforts of the FED, credit markets have largely returned to their pre-pandemic state. By taking the proposed actions now, PGE reduces cost and risk for PGE ratepayers as well as the Company.

The Company may take the following action without returning to the Commission for further authorization:

- PGE may arrange for an accordion feature⁸ that will enlarge the proposed credit facility up to \$750 million without returning to the Commission for further authorization.

Under a new order in this docket, the Company would need to return to the Commission on these matters every two years starting when the revised Credit Facility matures, is updated, or is replaced, whichever comes soonest.

Staff finds that the terms of the KPI presented by the Company are acceptable subject to the conditions outlined in Staff's recommendation. PGE represents that the KPI pose little risk of harming ratepayers with the potential to save ratepayers money.

⁷ See Page 1 of the Company's initial filing.

⁸ An accordion feature is an optional feature of a credit agreement the Company can purchase giving it the right, but not the obligation, to increase the size of its credit facility. This feature can benefit ratepayers by allowing the Company to more quickly take positive net present value financing actions than would be the case in the absence of such a feature.

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Staff has considered the use of data provided in PGE's prior credit facility compliance reports. Conditions herein require that PGE continue to capture and maintain the same level of quarterly detail as in the past. However, the Company need only submit this data to Staff upon request. This approach minimizes the burden of frequent confidential financial reporting, without materially impairing compliance.

PROPOSED COMMISSION MOTION:

Approve PGE's request to extend its Credit Agreement by 2.8 years through September 2026 and amend it in an amount of up to \$650 million, or \$750 million inclusive of the accordion feature and KPI, subject to Staff's nine recommended conditions.

PGE UF 4323 PM Memo

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Attachment A

Shading indicates the current applicable spread.

Annual Commitment Fees: A bank's annual commitment fee may not exceed the following bps of average commitment amounts based on Standard and Poor's (S&P) and Moody's (M) applicable rating⁹ in effect in the relevant period:¹⁰

S&P	M	S&P	M	S&P	M	S&P	M	S&P	M
A+	A1	A	A2	A-	A3	BBB+	Baa1	BBB	Baa2
◀ 7.5 bps		10.0 bps		12.5 bps		17.5 bps		22.5 bps ▶	
◀ Also applies for higher credit ratings						▶ Also applies for lower credit ratings			

Variable Rate Borrowing: The Alternate Base Rate (ABR) associated with floating-rate borrowing of less than one month under the Credit Agreement will not exceed the highest of the following:

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⁹ When S&P and Moody's credit ratings differ by 1 notch, the factor for the higher rating will apply. If the difference is greater than one notch, the factor for one notch less than the higher rating will apply.

¹⁰ Caution: While interest and fees hereunder are generally computed on the basis of a year of 360 days, annual commitment charges and ABR rates are computed on the basis of a year of 365 days (or 366 days for a leap year). Thus, the applicable annual commitment fee is determined as follows:

Fee = Annual Average Commitment Amount X Current Credit Spread X 365 / 360 (for non-leap year).

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Attachment A (Continued)

Shading indicates the current applicable spread.

S&P	M	S&P	M	S&P	M	S&P	M	S&P	M
A+	A1	A	A2	A-	A3	BBB+	Baa1	BBB	Baa2
◀ 0.0 bps		0.0 bps		12.5 bps		25.0 bps		50.0 bps▶	
◀ Also applies for higher credit ratings					▶ Also applies for lower credit ratings				

Fixed rate Borrowing: The rate associated with fixed-rate borrowing under the Credit Agreement will not exceed the applicable LIBOR Rate plus the following Eurodollar Margin, for borrowings with a term of at least one month, based on S&P or Moody's applicable rating, as in effect on the day of borrowing.

S&P	M	S&P	M	S&P	M	S&P	M	S&P	M
A+	A1	A	A2	A-	A3	BBB+	Baa1	BBB	Baa2
◀ 80.0 bps		90.0 bps		100.0 bps		107.5 bps		127.5 bps ▶	
Spreads are Shown as All-In Drawn (Including commitment and Utilization Fees) Below									
◀ 87.5 bps		100.0 bps		112.5 bps		125.0 bps		150.0 bps ▶	
◀ Also applies for higher credit ratings						▶ Also applies for lower credit ratings			

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Attachment A (Concluded)

Shading indicates the current applicable spread.

Letter of Credit Participation Fee: The rate associated with letters of credit issued under the Credit Agreement will not exceed the following based on S&P or Moody's applicable rating, as in effect.

S&P	M	S&P	M	S&P	M	S&P	M	S&P	M
A+	A1	A	A2	A-	A3	BBB+	Baa1	BBB	Baa2
◀ 87.5bps		100.0 bps		112.5 bps		125.0 bps		150.0 bps ▶	

◀ Also applies for higher credit ratings

▶ Also applies for lower credit ratings

Attachment B

Shading indicates the current applicable spread

Secondary Pricing Mechanism

	S&P	M	S&P	M	S&P	M	S&P	M	S&P	M
	A+	A1	A	A2	A-	A3	BBB+	Baa1	BBB	Baa2
Commitment Fee	◀ 7.5 bps		10.0 bps		12.5 bps		17.5 bps		22.5 bps ▶	
Max KPI Pricing Impact	+/- 1 bps		+/- 1 bps		+/- 1 bps		+/- 1 bps		+/- 1 bps	
New Commitment Fee Range	6.5bps-8.5bps		9bps-11bps		11.5bps – 13.5bps		16.5bps-18.5bps		21.5bps-23.5bps	

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Attachment B (Concluded)

Shading indicates the current applicable spread
Secondary Pricing Mechanism

	S&P A+	M A1	S&P A	M A2	S&P A-	M A3	S&P BBB+	M Baa1	S&P BBB	M Baa2
Applicable Eurodollar Margin	◀ 80.0 bps		90.0 bps		100.0 bps		107.5 bps		127.5 bps	▶
Spreads are Shown as All-In Drawn (Including commitment and Utilization Fees) Below										
Applicable Eurodollar Margin + Commitment Fee	◀ 87.5 bps		100.0 bps		112.5 bps		125.0 bps		150.0 bps	▶
Max KPI Pricing Impact	+/- 5 bps		+/- 5 bps		+/- 5 bps		+/- 5 bps		+/- 5 bps	
New Commitment Fee Range	82.5bps-92.5bps		95bps-105bps		107.5bps-117.5bps		120bps-130bps		145bps-155bps	