ORDER NO. 22-472

ENTERED Dec 13 2022

BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UF 4335

In the Matter of PACIFICORP, dba PACIFIC POWER, Application to Issue Promissory Notes and Borrow under Revolving Credit Agreements and Other Borrowing Arrangements in an Amount up to $2 Billion.	ORDER

DISPOSITION: STAFF'S RECOMMENDATION ADOPTED

At its public meeting on December 13, 2022, 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:

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. CA11

PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: December 13, 2022

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

DATE: November 21, 2022

TO: Public Utility Commission

FROM: Matt Muldoon

THROUGH: Bryan Conway and Marc Hellman **SIGNED**

SUBJECT: PACIFIC POWER:
(Docket No. UF 4335)
Requests authority to issue notes and borrow under revolving credit and other borrowing arrangements in an amount up to $2 billion.

STAFF RECOMMENDATION:

Staff recommends the Commission approve PacifiCorp's (PacifiCorp, or Company) application subject to Staff's recommended conditions (Conditions) and restrictions (Restrictions).

Conditions

1. The sum of borrowing principal and Letters of Credit (LC) under Revolving Credit and Loan Agreements (Credit Agreements) in domestic U.S. and international financial markets shall not exceed $2 billion at any one time.
2. Simultaneous borrowings may be expandable with accordion features, but are still subject to a maximum aggregate size of $2 billion.
3. The Company currently has a revolving Credit Agreement with borrowing authority of $1.2 billion over three years, extendable in one-year increments thereafter (annually in June), in perpetuity. On or before December 31, 2029, the Company must obtain renewed Commission authority to replace or extend, and update authority requested herein.[1]

[1] Periodic reauthorization before the Commission helps to ensure both Company and Commission computer systems and information are in current accessible electronic formats as well as satisfying other like practical concerns. As an example, the prior Docket and Order were filed sufficiently long ago that they do not appear in e-Dockets, a current Commission computer resource, soon to be replaced.

4. One-time arrangement fees at the closing of a Credit Agreement will not exceed $100,000 per Lead Agent, and $50,000 per Syndication Agent. Each Credit Agreement's annual bank administration and agency fees will not exceed $35,000.
5. The one-time upfront fee of participating banks may not exceed ten basis points (bps) for old money and 14.5 basis points for new money of that bank's initial commitment amount.
6. The credit facility may be used to support LCs. Bank LC fronting fees will not exceed 20 bps. Bank Notes issued to commercial banks may not have a maturity of over one year but may be renewed at maturity.
7. Bank annual facility and borrowing fees and spreads will not exceed those shown in Attachment A, except as otherwise specifically provided in the Conditions listed herein.
8. Authority for the $1.5 billion revolving credit and other borrowing arrangements authorized by Commission Order No. 98-158 in Docket No. UF 4120 (Existing Credit Facility) is terminated 60 days after issuance of a Commission Order in Docket No. UF 4335.
9. The Company will file a copy of each executed Credit Agreement with the Commission within 30 calendar days after closings, accompanied by a report demonstrating all fees, margins over underlying securities, interest rates, and expenses are consistent with contemporaneous competitive market prices for such Credit Agreements.

   No quarterly or annual reporting is required, but the Company must maintain a quarterly activity log, inclusive of any Commercial Paper (CP), LCs, short-term borrowings, other commitments and drawdowns with detailed descriptions, and cost data, breaking out execution cost for accordion features. This log must be maintained and available for review by the Commission for the life of the Credit Agreements.
10. Amendments to LCs will not exceed $1,000 per amendment.
11. Aggregate Company and participating bank legal fees may not exceed $300,000 per Credit Agreement.
12. The Commission reserves the right to determine the reasonableness of usage, risks and costs in any future rate case or other Commission proceeding.

Restrictions

1. The Company's debt may not exceed 65 percent of its capital structure.

2. Swing-line Loans may not exceed $200 million.
3. The Company may not use over half the capacity of the aggregate Credit Agreements at any one time to support the issuance of LCs.
4. Portions of up to $2 billion requested Credit Arrangements devoted to a given use will not simultaneously be available to support other financing activity or to meet other commitments.

DISCUSSION:

Issue

Whether the Commission should approve the Company's request for authority to enter into a revolving Credit Agreements for a term of up to five years, with two optional additional one-year extensions in an aggregate amount up to $2 billion, inclusive of all accordion features.

Applicable Law

Under ORS 757.415(1), a public utility may issue stocks and bonds, notes, and other evidence 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 evidence 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 757.4

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 evidence of indebtedness, and any security. See 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. See ORS 757.430.

Application requirements and the exhibits that must be attached are set forth in OAR 860-027-0030.

Analysis

Background
On October 28, 2022, the Company filed a request for authority to enter into revolving Credit Agreements in an aggregate amount up to $2 billion (Application). The primary use of the Credit Agreements is to provide working capital, operational liquidity, and transactional guarantees. LCs issued under the Credit Agreements will provide collateral in construction and in market transactions, and reclamation guarantees where necessary. The Credit Agreements will also support Commercial Paper and Pollution Control Revenue Refunding Bonds (PCRB). PacifiCorp provided its Board of Directors authorization for aggregate Credit Arrangements of this magnitude.[2]

Staff reviewed the Company's filing and is satisfied that all requirements of OAR 860-027-0030 have been met. Staff recommends that the Commission grant the Company's request in full because it will be used for authorized purposes. These purposes include guarantee of necessary utility market transactions, and construction and maintenance contracts. Approval is appropriate with the adoption of the Conditions provided herein. PacifiCorp asks to refresh its credit facility so that it can last a full five years into the future. Staff will explain further herein why these changes are in the public interest and will benefit ratepayers by controlling costs and eliminating uncertainty in market transactions.

Use of Proceeds
The Company represents that this credit facility will be put to usual and necessary utility purposes consistent with governing applicable law.

The Company may issue notes to banks participating in Credit Agreements for amounts equal to the individual bank's commitment level. The Company may also use the Credit Agreements for any utility purpose authorized by ORS 757.415; e.g., the low-cost credit and liquidity enhancement of:

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2 See Application Exhibit C, page 6.

- Construction, operations and maintenance, and other contracts;
- PCRB remarketing;
- Issuance and guarantee of commercial paper and other short-term debt;
- Low-cost trading collateral in lieu of maintaining cash deposits or balances; and
- 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 that could be at risk in the event of counterparty bankruptcy. The enhanced liquidity represented by PacifiCorp's application provide certainty that the Company can meet its utility obligations even under adverse conditions. This is both consistent with Warren Buffets stated goals at the last Berkshire Hathaway annual shareholders meeting,[3] and in PacifiCorp utility customers' benefit.

Expenses
In subsequent rate cases, the Company has the burden to demonstrate that the form of borrowing used for each pertinent utility purpose was the best combination of expense and risk of borrowing/liquidity options available to the Company.

The Company represents in its Application that fees and margins incurred will be market-based costs typical for this type of facility. PacifiCorp is not required to subject a Credit Agreement or related LCs to competitive bidding. However, the Company must still demonstrate in subsequent general rate cases that fees and margins, including those after any execution of accordion features, reflect competitive contemporaneous market conditions. Where utility purposes and uses of this credit facility are support in acquiring gas or other resources at more than double three-year trending prices, the Company will maintain records available for Staff viewing upon request, that memorialize the reason for the higher than trending prices and alternatives PacifiCorp considered.

Restrictions
PacifiCorp must observe some covenants and restrictions as it draws down on the requested Credit Agreements. The Company's debt may not exceed 65 percent of its capital structure. Swing-line Loans may not exceed $200 million. Further, PacifiCorp may not use over half of the aggregate Credit Agreements' capacity at any one time to support the issuance of LCs. Portions of up to $2 billion requested Credit Facility devoted to a given use will not simultaneously be available to support other financing activity or to meet other commitments. These restrictions are usual, customary, and unlikely to be burdensome.

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[3] April 30, 2022.

A Credit Agreement may contain an accordion feature that allows the Company to increase its borrowing capacity up to the aggregate $2 billion. The costs for such an increase in borrowing capacity must be commensurate with the market conditions at the time the accordion feature is executed. Accordion features generally allow for better control of cost and risk. The Company only pays for the cost of a smaller credit facility while that is adequate to meet its utility needs but retains the flexibility to enlarge the facility as needed. This prevents ratepayers from supporting a larger facility if it is not yet needed.

Outstanding Authorization
The Company generally expects to close new Credit Agreements before existing credit arrangements are scheduled to expire. This is usual, customary, and expected by credit rating agencies.

Authorized expenses will be limited to customary and usual fees provided in the Conditions herein.

The requested Credit Agreement authority replaces the Company's current authority under Order No. 98-158, entered 26 years ago in Docket No. UF 4120, which permits the Company to borrow up to $1.5 billion generally with maturities under one year.

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

Docket No.	Initial $ Amount	Maximum Aggregate $ Amount
UF 4120	$1.5 billion (Current)	$1.5 billion
UF 4335	$2 billion (Proposed)	$2 billion
Durable	$2 billion	$2 billion

Credit Ratings
Because the requested Credit Agreement is integral to the Company's financial liquidity, authorization to borrow is not terminated based on any particular credit rating. The Credit Agreement itself will not require a rating. PacifiCorp debt ratings from Standard & Poor's and Moody's 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.

Current Credit Ratings

PacifiCorp's Current Credit Ratings	**S & P**[4]	**Moody's**
First Mortgage Bonds	A+	A1
Senior Unsecured	A	A3
Commercial Paper	A-1	P-2
Rating Outlook	Stable	Stable

Reporting Requirements
The Company's reporting requirements are relatively light as proposed in this filing in comparison to like prior Commission authorizations. However, Staff does not foresee any harm that would result from the proposed reduction in reporting because the Company must still capture and keep operation data that is to be available at any time upon Commission request. Should the Company fail to comply with a Commission request, Staff would recommend regular periodic filings in future applications to assure compliance.

Conclusion

After thorough review of PacifiCorp's application and supplemental filing, Staff finds that the Company's proposed Credit Agreement inclusive of the Conditions and Restrictions herein is reasonable and should be beneficial to ratepayers. As noted above, reporting requirements are less complex in this application than those in recent Commission authorizations, but the Company agrees that it will capture and keep operation data that will be made available to the Commission upon request.

This requested authorization would also allow the Company to execute an accordion feature enlarging a Credit Agreement up to the aggregate $2 billion without requiring further Commission authorization. Staff supports the accordion feature because it may bolster the Company's credit ratings, and may help insulate it from financial market disruptions. Staff finds that the restrictions, costs, and flexibilities of the requested Credit Facility are usual, similar to the Existing Credit Facility, do no harm, and control costs of performing necessary utility business.

The Company has reviewed this memo and agrees with its explanations, Conditions and Restrictions.

4 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.

PROPOSED COMMISSION MOTION:

Authorize PacifiCorp to issue notes and borrow under revolving credit and other borrowing arrangements in an amount up to $2 billion thru December 31, 2029, subject to Staff Conditions 1 to 12 and Restrictions 1 to 4.

PAC UF 4335 2B Credit

Attachment A

Other Limitations on Fees and Spreads

Blue text indicates the current applicable spread.

◄ Also applies for higher credit ratings ► Also applies for lower credit ratings

A. **Annual Facility Fees**: A bank's annual facility fee may not exceed the following bps of average commitment amounts based on the higher of Standard and Poor's (S&P) and Moody's (M) applicable rating[5] in effect in the relevant period:[6]

	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
Undrawn	◄ 6 bps		**7.5 bps**		10 bps		15 bps		20 bps►	

B. **Variable Rate Borrowing**: The Alternate Base Rate (ABR) associated with floating-rate borrowing (Prime Rate Advances) under a Credit Agreement will not exceed the highest of:

a. Overnight SOFR Rate plus 10 bps; or

b. Prime Rate plus the following spread based on S&P or Moody's rating:

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**		0.0 bps		7.5 bps		27.5 bps►	

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[5] 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.

[6] 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 facility fee is determined as follows:
Fee = Annual Average Commitment Amount X Current Credit Spread X 365 / 360 (for non-leap year).

Attachment A (Concluded)

Other Limitations on Fees and Spreads

Blue text indicates the current applicable spread.

◄ Also applies for higher credit ratings ► Also applies for lower credit ratings

C. **Letter of Credit Participation Fee**: The rate associated with letters of credit issued under a Credit Agreement will not exceed the following based on S&P or Moody's applicable rating, as in effect, based on overnight SOFR rate plus 10 bps margin

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
◄ 90.0 bps		**97.5 bps**		110.0 bps		117.5 bps		137.5 bps►	