ORDER NO. 24-090

ENTERED Apr 02 2024

BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UF 4354

In the Matter of

PACIFICORP, dba PACIFIC POWER,

Application for Authority to (1) Issue and Sell or Exchange not more than $5,000,000,000 of Debt, and (2) Enter into Credit Support Arrangements.

ORDER

DISPOSITION: STAFF'S RECOMMENDATION ADOPTED

At its public meeting on April 2, 2024, 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. CA4

PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: April 2, 2024

REGULAR ____ **CONSENT** __X__ **EFFECTIVE DATE** __Upon Commission Approval__

DATE: March 25, 2024

TO: Public Utility Commission

FROM: Matt Muldoon

THROUGH: Bryan Conway **SIGNED**

SUBJECT: PACIFIC POWER:
(Docket No. UF 4354)
Requests authority to issue up to $5 billion of debt and enter into credit support arrangements.

STAFF RECOMMENDATION:

Staff recommends the Commission approve Pacific Power's (PacifiCorp, PAC, or Company) application to issue and sell or exchange up to $5 billion of debt securities and enter into credit support arrangements (Application), subject to Staff's recommended nine conditions and reporting requirements (Conditions).

Conditions:

1. Authorization Limit

   First Mortgage Bonds (FMB) and Green FMB (Bonds) and Unsecured Notes (Notes) may be issued under this new authority in any proportion and in any combination of differently sized public offerings, which may be issued pursuant to a shelf registration filed with the SEC, or private placements, provided that the total aggregate Bonds and Notes issued, sold, or exchanged under this authority shall not exceed $5 billion and shall have maturities not exceeding 40 years.

   Note: If the Bonds and Notes are issued at an Original Issue Discount (OID) not to exceed one percent, such greater amount shall result in an aggregate offering price of not more than $5 billion.

2. Withdrawal of Prior Authorization

   All prior Commission Bonds and Notes outstanding unused issuance authorizations will expire 60 calendar days after the Commission's order is entered in this docket, UF 4354, approving PacifiCorp's Application to issue FMB and Debt Securities to the limits shown in Condition 1.

3. Cost Requirements

Subsequent to an authorizing Commission order pursuant to this Application and subject to the Conditions approved therein, the Company may issue FMB and Unsecured Notes under that order 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 U.S. Treasury (UST) do not exceed the limits set forth in Attachment B. Interest rates on the Unsecured Notes may be periodically reset based on a fixed spread over the Secured Overnight Financing Rate (SOFR), or 1-, 2-, 3-, or 6-month London Interbank Offering Rates (LIBOR) as reported on Bloomberg, Reuters, or other customary LIBOR sources or prevailing successor benchmark rates. In no case for Unsecured Notes will the fixed spread over pertinent LIBOR exceed 1.75 percent.

B. The all-in rate does not exceed an **9.0** percent "hard cap." However, the agreements related to FMBs and Unsecured Notes may contain customary or market terms and conditions required by lenders or holders, including without limitation, yield protection, capital adequacy requirements, and tax indemnification, which will not be included in the 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.

The Company may also incur a new prevailing fee(s) (Unanticipated Fee Allowance), not to exceed an aggregate 10 basis points of affected principal. Such Unanticipated Fee Allowance is in addition to the hard caps described above. The Company should include materials in its next reporting to the Commission demonstrating that this cost was new and market pervasive at issuance.

4. Hedging Limitations

Authorization to enter into Interest Rate Hedging Arrangements and international financing are predicated upon the Company's completion of the Company's own affirmative comprehensive analysis or use of independent third-party or Berkshire Hathaway or Berkshire Hathaway Energy 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 international finance or financial derivative agreement, other than a delayed issuance arrangement of up to one year under a private placement at *de minimis* incremental cost and at no incremental risk, the Company will perform its own comprehensive analysis[1] regarding hedging costs, international benefits costs 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 and international financing analysis to the Commission upon request and will maintain its analysis as described in the body of this report.

5. Cost Competitive

   Agent and underwriting commissions for the issuance of FMB 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. Should issuance fees in total exceed 1.0 percent domestically or 3.0 percent for debt issued overseas, PacifiCorp will in its reporting described in Condition 6 provide evidence that that issuance fees paid were then market prevailing.

6. Timely Reporting

   A. The Company will promptly provide a written summary notice through the PUC filing center and through email directly to PUC Staff named on the service list for this docket of any issuance or execution of a bond purchase and sale agreement with a delayed issuance feature occurring under an order approving 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 B over the UST benchmark yields.

[1] See "Recommended Hedging Analysis" on page 12 of this report.

D. PacifiCorp Finance Group will annually recap provisions of the covenants and restrictions for issuing First Mortgage Bonds and provide Staff with a copy of the Company's annual certificate of compliance when this is sent to the trustee on the Company's mortgage.

7. Termination of Authority

   The Company's authorization to issue FMB and Unsecured Notes granted by an order issued pursuant to this application is terminated if either S&P's or Moody's credit rating for PacifiCorp secured debt falls below Investment Grade.[2]

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 and international issuance authority end when securities issuance authority ends.

9. Green First Mortgage Bonds (Green FMB)

   Incremental initial arrangement and issuance cost of Green FMB are authorized, including program setup legal costs, over limits and controls herein. However, PacifiCorp must stand ready in a future rate case or other Commission proceeding to demonstrate that costs recorded were actual costs incurred and that the Company took effective measures to reduce costs in recurring Green FMB issuances over time.

DISCUSSION:

Issue

Whether the Commission should approve PacifiCorp's request to sell or exchange up to $5 billion of debt securities with maturities up to 40 years, with credit support and in international financial markets and cancel PacifiCorp's previously approved outstanding bond issuance authority, including that authorized in Order No. 23-421 in Docket No. UF 4337.[3]

Applicable Law

Under ORS 757.405, a utility must obtain Commission approval prior to issuing stocks and bonds, notes, and other evidences of indebtedness. The Commission may

[2] Investment grade long-term debt is rated BBB– or better by S&P, or Baa3 or better by Moody's.
[3] Order No. 23-105 in Docket No. UF 4337 as amended by Order No. 23-421.

authorize an issuance if it is for one of the permissible purposes listed in ORS 757.415(1), satisfies the criteria of ORS 757.415(2)(b), and, except as permitted, the purpose of the issuance is not reasonably chargeable to operating expenses or income, ORS 757.415(2)(c). Permissible purposes for an issuance under ORS 757.415(1) include the acquisition of property, the construction, completion, extension or improvement of its facilities, the improvement or maintenance of its service, and the discharge or lawful refunding of its obligations.

Finally, OAR 860-027-0030 requires utilities to provide certain information when seeking authority to make an issuance under ORS 757.405-757.415.

Analysis

PacifiCorp's Application
PacifiCorp seeks authority to issue securities between 1 and 40 years in length, in one or more series, in amounts not to exceed $5 billion in the aggregate. PacifiCorp proposes to use the proceeds of the issuance(s) to construct, extend, or improve utility facilities, improve or maintain service, or for the discharge or lawful refunding of obligations that were incurred for utility purposes permitted under ORS 757.415.

PacifiCorp agrees that if the Commission approves PacifiCorp's Application, authorization to issue new bonds or notes under previous Commission orders will no longer be valid.

PacifiCorp asks that it be authorized to issue fixed-rate secured long-term debt in the form of Bonds or Notes, with a term of up to 40 years. PacifiCorp states that debt securities may or may not be registered. Unsecured Notes will likely be subordinated to the Company's FMBs with respect to the Company's First Mortgage lien.

The Company states that it anticipates issuances will be primarily fixed-rate First Mortgage Bonds, but is requesting authority for a variety of borrowing options in order to provide financial flexibility, to obtain lower all-in cost, to reduce risk, and to broaden access to investors. For example, Eurobonds are issued outside the jurisdiction of any single country to investors in various countries by an international syndicate. Eurobonds denominated in U.S. dollars are referred to as Eurodollar Bonds. Eurodollar bonds generally are priced at a spread over like maturity U.S. Treasuries (UST). Unsecured Eurodollar financing may require a supporting letter of credit.

PacifiCorp also asks that it be authorized enter into **U.S. credit support** arrangements costing annually up to **one percent** of principal covered, **and** into **international** credit support arrangements costing annually up to **three percent** of principal covered.

PacifiCorp states that if its Application is approved, the coupon or interest rate for FMB or fixed-rate Notes issued under the Commission's order will be established at the time of issuance, unless the Bonds or Notes have the delayed settlement feature, in which case the fixed interest rate will be determined on the date PacifiCorp and purchaser enter into a binding purchase and sale agreement.

The Company proposes a matrix for the maximum interest and coupon rates for issuances under any order approving PacifiCorp's Application; and asks for authority to issue FMBs or Notes so long as the interest rate or coupon does not exceed **9.0** percent per annum.

PacifiCorp asks that floating rate Notes issued under the Commission's order be authorized to have interest rates that would be reset monthly, quarterly, or every six months (established at time of sale), based on a fixed spread over the SOFR, LIBOR, or then prevailing successor benchmark rate for that maturity acceptable to PacifiCorp, banks, and other pertinent entities.

PacifiCorp notes that it is not filing its Application pursuant to ORS 757.495 concerning contracts with affiliated interests, and thus would not need to show that this Application if granted would result in outcomes that are fair, reasonable, and not contrary to the public interest.

PacifiCorp asks that the securities be permitted a sinking fund provision and a feature that allows for early redemption, which may require PacifiCorp to indemnify the holders of the securities from any loss or costs incurred as a result of the redemption. The agreement with purchasers of securities may contain a provision requiring PacifiCorp to pay a breakage fee in the event the securities are redeemed prior to maturity. The agreement with purchasers of securities may contain other market-required conditions including yield protection, capital adequacy requirements, and tax and funding indemnification.

PacifiCorp clarifies that its documentation may use the phrase, "Medium Term Notes" (MTN) which indicates debt with maturities between 9 months and 30 years. That range of maturities would be a subset of the 1- to 40-year range of maturities requested. PacifiCorp further correctly clarifies that these debt issuances are not subject to competitive bidding requirements. The Company also asks that the requested authority remain in effect so long as PacifiCorp senior secured debt has investment grade ratings from two nationally recognized rating agencies.

Staff Analysis and Recommendations

In the following analysis, Staff addresses whether the proposed issuance complies with ORS 757.415(1) and satisfies the Commission's no harm standard, specifically addressing PacifiCorp's proposal with respect to: the $5 billion amount; up to 40-year maturities; Bonds and Notes; fixed and floating rates for Unsecured Notes; interest rate hedges; the maximum spread over U.S. Treasuries Yields and alternate **9.0 percent** hard cap within which PacifiCorp is authorized to do issuances; PacifiCorp's credit rating; and recovery of fees and commissions associated with the issuance. In making this recommendation, Staff incorporates the Federal Reserve's (Fed) current interest rate policy. Staff also considers Berkshire Hathaway Company increasing presence in international markets.

Use of Proceeds
PacifiCorp had $10.275 billion of FMB and $218.150 million of Pollution Control Revenue Bonds (PCRB) outstanding as of December 31, 2023. Authorization as requested will allow PacifiCorp to address capital-spending needs and/or repay or replace maturing debt and the flexibility to target a balanced capital structure consistent with Commission Order No. 22-491 entered December 16, 2022, in Docket No. UE 399.

This $5 billion debt would support usual utility purposes as described above, consistent with statutory requirements.[4] In general, retail customers benefit to the extent that the Company can optimize timing and cost of financing cash flows to meet utility needs described above. In addition, the requested authority provides certainty that PacifiCorp can meet its trading and contractual obligations and that the Company has adequate resources to require counterparties to meet theirs.

$5 Billion Debt
Staff supplemented the information provided by the Company with its filings with the U.S. Securities and Exchange Commission (SEC), Wall Street Journal (WSJ) articles, investor presentations, compiled data, S&P investor resources, Moody's Analytics and Market Risk Projections, Value Line market snapshots, Bloomberg analysis, forward data, and trend curves.[5] Staff also reviewed recent bond issuance spreads and costs by credit rating of issuing energy utilities for each bank that also participated in a Commission authorized securities issuance in the last five years. Staff does not publish that aggregated confidential information herein.

FMB and Fixed and Floating Rate Unsecured Debt
The Company's FMB 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

4 The Company's intended uses mirror those authorized in ORS 757.415(1).
5 As an example, Staff reviewed PacifiCorp current liquidity as captured by Bloomberg coverage of PacifiCorp revolving credit facilities and ratings of long-term debt issuances.

decrease of the coupon rate at issuance, as compared with otherwise similar unsecured debt. Covenants for some FMBs may require that corporate cash flows be adequate to serve interest obligations before dividends may be paid to shareholders. Excepting pollution control revenue bonds (PCRB), all of PacifiCorp's long-term debt outstanding is FMBs. That reflects PacifiCorp's careful and considered financial management to date. PacifiCorp also benefits from very strong Berkshire Hathaway, Inc. (BRK) parent company liquidity.

Authority to issue unsecured debt provides PacifiCorp with additional flexibility and also imposes a burden on the Company to establish at subsequent general rate case that the cost of issuing unsecured debt was prudent and cost effective compared to the cost of issuing FMBs, given market conditions and any restrictions PacifiCorp operated under at time of issuance. Unsecured debt backed only by the full faith and credit of the issuing company typically requires higher interest rates than would collateral-backed FMBs. As shown in Attachment A, unsecured debt can bear higher cost than secured debt, so utilizing this flexibility merits greater scrutiny. Conversely, issuing FMBs requires both adequate interest coverage cash flows, and an adequate pool of qualified assets. FMBs generally are senior in rights to receive corporate proceeds than unsecured debt.

Authority to issue floating or variable rate debt also provides PacifiCorp with additional flexibility. Interest rates for floating rate notes may be periodically reset based for the pertinent maturity over the then prevailing benchmark rate, which currently is transitioning from LIBOR to SOFR.

Under Staff's proposed Condition 6, the Company's choice to issue floating rate Unsecured Notes would have to be explained within 30 days after the close of the transaction and at the next general rate case, the Company will have to establish that the variable rate debt was prudent and cost effective compared to alternatives the Company examined. Therein PacifiCorp will also need to establish that a variable rate was the best match to the nature and longevity of any capital spending on facilities supported by said issuance.

In reviewing debt carrying capacity, Staff considers carefully the covenants and provisions of each utility's indenture. The Company addresses certain covenants and restrictions in the issuance of FMBs. In general, in the event PacifiCorp was not able to pass the 'times interest earned' test under the indenture so as to issue FMBs, PacifiCorp could lean on its revolving credit facilities, BRK support, and short-term debt markets. PacifiCorp could also look at unsecured debt in reviewing its options.

Because a Commission jurisdictional energy utility may face unexpected contingencies, which temporarily impair cash flows – such as a generation forced outage, which causes the utility to incur unexpected cost for replacement market power purchases – it may need short-term cash flow options for interest coverage. Staff recommends PacifiCorp be authorized these flexibilities provided there is pressing need that would not otherwise permit issuance of FMBs and remedies, such as delayed draw in private placement.

These flexibilities assure credit rating agencies and investors that PacifiCorp will consistently be able to meet its utility obligations to provide reliable, resilient energy at reasonable rates. However, PacifiCorp must justify deviation from reliance on FMBs, which under most circumstances offer lowest all-in issuance cost of long-term debt for retail customers.

Credit Ratings Local vs. Foreign[6]
PacifiCorp's **local** currency long-term debt ratings are currently rated as:

Moody's: Baa1	**S&P**: BBB+
(Outlook Stable)	(Outlook Negative)

PacifiCorp's **foreign** currency long-term debt ratings are currently rated as:

Moody's: Baa1	**S&P**: BBB+
(Outlook Stable)	(Outlook Negative)

In general, the interest rate or coupon is higher for unsecured debt if debt were not backed by any PacifiCorp assets and therefore bond-rating agencies set the unsecured ratings below secured ratings. In part due to affiliation with BRK, international issuances have the potential to be well rated and cost effective, depending on myriad factors. For this reason, Staff recommend that PacifiCorp and its marketing unit be authorized to proceed when costs and risks are favorable. A long-term secured debt has two components: a referent country benchmark and a spread there over. For example, a German issuance of long-term debt based on a spread over a much lower yield could (provided all credit and marketing support, and repatriation were not overly costly) be a lower all-in cost than a domestic issuance.

While the average foreign exchange trader loses their money and exits, those with a long-term and structured presence in international markets can achieve superior results to less-diversified efforts. Berkshire Hathaway has become one of the world's largest multinational companies by revenue and has successfully floated securities globally. To the extent that PacifiCorp draws on that experience within BRK it can at times, depending on relative market conditions, achieve lower all-in cost than were PacifiCorp not to look at international markets. However, the authorization herein is to execute

6 Staff accessed Moody's Investors Service, Inc. (Moody's) and S&P Global (S&P) ratings on March 25, 2024. Note Moody's downgrade on November 21, 2023, PacifiCorp | View by Class | Moody's (moodys.com).

debt securities offerings internationally only when they can be expected to be more cost effective at comparable risk than domestic U.S. alternatives.

Debt issued in the private placement market may also be advantageous versus a public offering, because it may provide flexibility of timing and size, and lower issuance costs. Private placements generally do not require rating by rating agencies, but they can have implied ratings based on the Company's current ratings.

Under Staff's proposed Condition 8, the Company's authorization to issue FMB and Unsecured Notes granted by an order issued pursuant to the Application is terminated if either S&P's or Moody's credit rating for PacifiCorp long-term local secured debt falls below Investment Grade.[7] This is more stringent than PacifiCorp's proposed "investment grade ratings for two nationally recognized rating agencies".[8]

Maturities up to 40 years
The Company requests authority to issue Bonds and Notes with maturities of up to 40 years. Confidential benchmarking by Staff indicates that up to 40-year issuances at reasonable costs may be available to PacifiCorp. Such longer maturities may lock in historically low coupon rates while reducing pressure on the Company's debt maturity profile. Staff finds such arrangements can help reduce debt maturity concentration while lowering aggregate cost of long-term debt to ratepayer benefit.

Hedging Authority
To the extent PacifiCorp wishes to engage in interest rate hedging arrangements other than delayed start in private placement with *de minimis* incremental cost and risk with respect to issuances authorized under this order, Staff recommends that the Commission adopt Staff's Condition 4 requiring the Company to either conduct its own analysis or obtain an independent third-party analysis of any hedging transactions prior to execution of the transactions.[9]

Credit Support
In the next general rate case, the Company must show that the all-in issuance cost of debt supported by a letter of credit (LC) or other credit support arrangement was cost competitive with other reasonable issuance alternatives available to the Company at the times of arrangement and issuance, including, but not limited to FMBs in private placement with delayed draw and FMBs in public offering, both absent credit support.

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[7] Investment grade long-term debt is rated BBB– or better by S&P, or Baa3 or better by Moody's.
[8] See page 1 of the Company's Application.
[9] Such hedging transactions could include treasury interest rate locks, treasury interest rate caps, treasury interest rate collars, treasury options, forward starting interest rate swaps, and swap option combinations (swaptions).

Also in the next general rate case, PacifiCorp must again show that it investigated whether unsecured letters of credit provided adequate support at lower all-in cost than secured letter of credit alternatives.

International Financing
Because Berkshire Hathaway, Inc. has an ongoing presence in and expertise with global financial markets, Staff recommends the Commission allow PacifiCorp to pursue international financing when the all-in issuance cost inclusive of credit support and LCs and agent and currency exchange costs are reasonably expected to be lower than alternatives like a U.S. issuance of FMBs in private placement. However, the Company must perform its own financial analysis or utilize Berkshire Hathaway internal resources to show that the all-in issuance cost of debt supported by a letter of credit or other credit support arrangement inclusive of letters of credit (LC) or other credit support was cost competitive with other reasonable issuance alternatives. This may create global financing opportunities for PacifiCorp and its retail customers.

In general, PacifiCorp and the investment banks with which it does business are very well known within PacifiCorp's operating footprint. However, internationally, foreign companies are less well known even when a subdivision of a large multinational corporation. PacifiCorp has two business units: the first subordinate business unit, Pacific Power, is a regulated electric utility with service territory throughout Oregon, northern California, and southeastern Washington. The second, Rocky Mountain Power, is a regulated electric utility with service territory throughout Utah, Wyoming, and southeastern Idaho. To ensure that its international offerings are well received, the Company commits that it will work with entities internationally with equal or higher financial ratings to PacifiCorp to market its debt securities. Documentation may also show PacifiCorp rather than a subordinate business unit.

This approach sidesteps the challenge that PacifiCorp may not be well known and understood in a given international financial market. But it can be more costly, potentially as much as three percent vs. domestically in the U.S. one percent in fees and issuance expenses. For this reason, Staff recommends that the Commission require international issuances to be equal or lower all-in cost to usual issuances in the U.S. inclusive of all credit support, marketing partnership costs, currency exchange costs and activity to manage international positions. International fees that are equal or lower cost can add flexibility and diversity, provided PacifiCorp performs its own market and risk analysis or utilizes BRK's supporting resources.

PacifiCorp agrees to comply with Staff's recommended Condition 4, as memorialized herein, that before entering into a financial hedging arrangement for the Bonds or Notes, and before issuing internationally, the Company will perform "its own" in-depth analysis of incremental risks and costs represented by hedging and any international issuance, or rely on independent third party analysis directly paid for by PacifiCorp. This avoids overreliance on indicative information and scenarios provided as marketing tools by international investment banks that illustrate how investment outcomes might look using optimized created data.

Recommended Hedging Analysis
Staff believes that a robust hedging analysis should:

- Be informed by, but should not solely rely on, investment bank provided materials;
- Place minimal weight on unverified indicative data and select range of years “snapshot” trend analysis;
- Clearly identify material assumptions and answer the question, “Who wins and who loses and how much, if assumptions and correlations do not hold true?”;
- 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;
- 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; and
- 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.

To the extent PacifiCorp obtains third-party quantitative cost and risk analysis, such analysis should be 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 Company has represented to Staff 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.

PacifiCorp 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 Company 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 or use a third party 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 minimis* incremental cost and risk, PacifiCorp will maintain its analysis in an MS Excel spreadsheet form that can be provided to Staff on request. PacifiCorp 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 UST Yields
Staff recommends using PacifiCorp's requested "Maximum Spreads over Benchmark Treasury Yields" in Attachment N of its Application, which are identical to the values shown in Attachment B to this memorandum. Staff's recommended values in Attachment B are based in part on Bloomberg data summarized by the graphs in Attachment D. Limits shown in Attachment B 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.[10]

Further, Staff sees few, if any, recent U.S. utility bond issuances with 15-, 20-, or 25-year maturities. Note the high premium paid in spread over pertinent maturity U.S. Treasuries for a 20-year bond in comparison to that for a 30-year A rate utility bond as illustrated in Attachment D. When those less utilized maturities are removed from Attachment C, Staff's recommended spread over UST provides adequate headroom for the Company's likely 10-year or less, and 30- to 40-year FMB or Unsecured Note issuances.

Hard Cap Alternative
Staff recommends that the Commission impose Staff's recommended condition that in the event all-in spreads exceed the relevant maximum spread over UST set forth in Attachment A, the Company may still issue FMB or Unsecured Notes without further Commission approval if the all-in rate does not exceed a "hard cap" of **9.0** percent, subject to additional reporting requirements outlined in Condition 6.[11] A **9.0** percent all-in rate "hard cap" allows adequate headroom to assure Company access to debt

[10] Staff accessed the Monetary Policy Report of the Board of Governors of the Federal Reserve System, on March 25, 2024 at: The Fed - Monetary Policy Report (federalreserve.gov).

[11] See the definition for "All-in Cost" by browsing to the lower right corner of the Commission's home webpage at: http://www.puc.state.or.us/Pages/index.aspx. Then, click the Quick Link: "Standard Data Requests for Energy Rate Cases" and scroll to page 32, "Terms."

markets, while providing reasonable cost controls to protect retail customers. Staff notes that this level differs from that asked by the Company. The level is based on Staff's news feeds and both Staff and U.S. Federal Reserve analysis. This level is neither overly permissive nor excessively constricting. It represents analysis that is current, comprehensive, and reflective of best available information at this time.

Provision for New Bank Fees
Additionally, the Company may incur a new prevailing fee(s), not to exceed an aggregate 10 basis points of affected principal. If relying on this provision, PacifiCorp's next reporting to the Commission should include materials to demonstrate that this cost was new and market-pervasive at time of issuance. This flexibility addresses the potential for additional fee(s) or charge(s) by investment banks, agents, organizers, or other parties that is not part of itemized bond issuance costs routinely encountered in March 2024 bond markets.

Underwriter and Agent Fees
Appendix A 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 basis points (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 $26.25 million in aggregate across the requested authorization).

Other Technical Expenses
After netting-out issuance fees as illustrated in Attachment B, the Company expects to achieve approximately $4.95 billion in aggregate net proceeds, not including any Original Issue Discount (OID) determined at the time of issuance. Representative aggregate fees and charges in Attachment B are higher than for recent benchmark issuances.[12] The Company may issue multiple separate sets of FMB or Unsecured Notes spread out over time rather than a single set of coordinated issuances within the same quarter. However, PacifiCorp stands ready to show that issuance costs were consistent with component costs for like stand-alone issuances in future audits or general rate cases.

[12] Staff captured 2024 debt issuance detail reported by the Wall Street Journal, Bloomberg, and SNL Financial LC, for electric utilities that Value Line covers, including PacifiCorp.

Early Redemption Features
PacifiCorp's request for authority includes the option to utilize an early redemption feature to provide financial flexibility. Staff agrees that the requested flexibility is reasonable. And, 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.

Allowing the early redemption feature is reasonable because shorter maturity debt may be more cost effective in the near term until PacifiCorp financial metrics allow for the issuance of additional FMB.

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 retail customers 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 50 basis points. This type of redemption does not typically require the issuer to pay a higher coupon or fee since the bondholder is effectively made whole.

The Company may also choose to implement other redemption features that would allow PacifiCorp an option to call FMB or Unsecured Notes 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. Such provisions may also require a breakage fee or indemnification for any loss or costs.

Capital Structure
PacifiCorp historically targeted and Staff has traditionally advocated for a 50/50 Debt/Equity capital structure over time. An order authorizing the Company to issue FMB and Unsecured Debt in the form and quantity requested would refresh PacifiCorp's authorization to issue long-term debt consistent with the Company's current utility obligations. Further, it would allow PacifiCorp to make strategic changes in capital structure as might be consistent with future finance strategy and regulatory context. Staff will continue to monitor PacifiCorp's capital structure going forward.

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 FMB and/or Unsecured Notes, as it deems appropriate.

Continued Commission Reliance on S&P and Moody's Ratings
Staff recommends the Commission require S&P and Moody's ratings where ratings are appropriate or required rather than alternatives that sound impressive but may substitute fluff for substance or be otherwise less reliable. The dual use of S&P and Moody's is not cheap, but is exceedingly less expensive than omitting early warning indicators for the Commission. Were the Commission to merely accept reliance on "at least two nationally recognized rating agencies", the Commission could receive Morningstar ratings and other sell-side market indicators that would continuously advise the Commission that the "Future is so bright, Commissions need to wear polarized sun shades."[13] In contrast, sticking to S&P and Moody's helps to ensure that the Commission becomes aware of jurisdictional energy utility challenges promptly allowing for a broader and more cost effective spectrum of timely remedies.

Green FMB Program Startup Legal and Other Incremental Costs.
FMB for the express purpose of constructing, upgrading, deploying, monitoring, controlling, and optimizing renewable electric generation, storage, smart or distributed energy resources, advanced electric and information technologies, supporting transmission, distribution and communication assets, more efficient electrical programs and solutions, in addition to refinancing or retirement of securities for like dedicated environmentally beneficial purposes may be aggregated into Green FMB Tranches. It is expected that issuance of Green FMB Tranches will incur incremental initial costs to coordinate agents and to create appropriate legal documentation. However, over time it is expected that routine issuance of Green FMB Tranches will enjoy falling costs due to reuse of legal templates and regular interactions with ongoing agents and facilitating entities.

Incremental initial arrangement and issuance cost of Green FMB are authorized, including program setup legal costs, over limits and controls herein. However, PacifiCorp must stand ready in a future rate case or other Commission proceeding to demonstrate that costs recorded were actual costs incurred and that the Company took effective measures to reduce costs in recurring Green FMB issuances over time. The Company must also be ready to show that green certification costs were those actually incurred and that PacifiCorp controlled costs to the extent practicable and considered alternatives including requesting Commission documentation changes in Orders for Finance Applications, Integrated Resource Planning, and General Rate Cases.

[13] See "The Morningstar Mirage" by Kirsten Grind, Tom McGinty and Sarah Krouse of the Wall Street Journal (WSJ) published in the print edition of October 25, 2017.

Conclusion

Staff review of this application indicates that the FMB issuance with maturities equal to or less than 40 years as requested will do no harm and can be expected to benefit retail customers. 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 in the future. PacifiCorp agrees to Staff Condition 4 that the Company perform its own case-by-case, in-house analysis or retain its own independent third-party experts to ensure that retail customers bear no unnecessary incremental cost or risk from activities beyond vanilla FMB or Unsecured Note issuance with delayed start in private placement. In addition, PacifiCorp agrees that the Company will include the cost of unwinding swaps, caps or foreign currency positions so as to make decisions based on comparable all-in-costs. The amount of the authorization is consistent with Commission Orders in the Company's last two general rate cases regarding capital structure.

Staff concludes that, subject to Staff's recommended conditions, the proposed issuance facilitates flexibility for executing Commission orders in pending and future rate cases and satisfies the Commission's statutory criteria. Accordingly, Staff recommends that the Commission approve the Application, subject to Staff's recommended Conditions.

The Company has reviewed and agrees with this memo, including the Staff-proposed conditions and reporting requirements.

PROPOSED COMMISSION MOTION:

Approve PacifiCorp's request for authority to issue and sell or exchange up to $5 billion of debt and enter into credit support arrangements, subject to Staff's recommended nine Conditions.

See Attachments A through D.

PAC UF 4354 $5 Billion Debt and Credit Support Arrangements

Attachment A

Maximum Allowable
Agent and Underwriter Commissions
for FMB and Unsecured Notes
in Normal Market Conditions

Maturity		Maximum Underwriter Commission
At Least	But Less Than	
Years		Basis Points (bps)
1	1.5	15
1.5	2	20
2	3	25
3	4	35
4	5	45
5	7	60
7	10	62.5
10	**12**	**65**
12	15	67.5
15	20	70
20	25	75
25	**41**	**87.5**

Attachment B

Maturity		Maximum All-In Spread Over U.S. Treasury (UST) Yields	
Years		Basis Points	
Over	Not More Than	FMB	Unsecured Debt
1	2	125	150
2	3	150	175
3	5	175	200
5	7	200	225
7	**10**	**225**	250
10	20	250	275
20	**30**	**275**	300
30	40	300	325

Note: Comparing Bloomberg data[14] 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 retail customers, over at least the next two years. The table above is consistent with PacifiCorp's Application Exhibit N.

[14] Staff referenced Bloomberg FMB and Unsecured USD indexed data on March 25, 2024. One Basis Point (bp) is defined as one-one hundredth of a percentage point. i.e., 100 bps equals one percent.

Attachment C

PacifiCorp Estimated Representative Issuance Expenses*

Item	Debt Securities $		Per $100
Principal Amount (Face Value)	$5,000,000,000		$100
Plus Premium or Less Discount	(Not Applicable)		
Gross Proceeds	**$5,000,000,000**		$100
Underwriter Spread & Commissions	43,750,000	$	0.875
Regulatory Agency Fees	1,000		
SEC Fees	551,000		
Printing & Engraving	60,000		
Trustee / Indenture Fees	180,000		
Accounting	720,000		
Rating Agency Fees	4,250,000		
Company Counsel Fees	480,000		
Miscellaneous Expenses	8,000		
Total Deductions	50,000,000	$	1.000
Estimated Realized Net Amount	**$4,950,000,000**	**$**	**99.000**

* Assumes the issuance of 30-year FMB.

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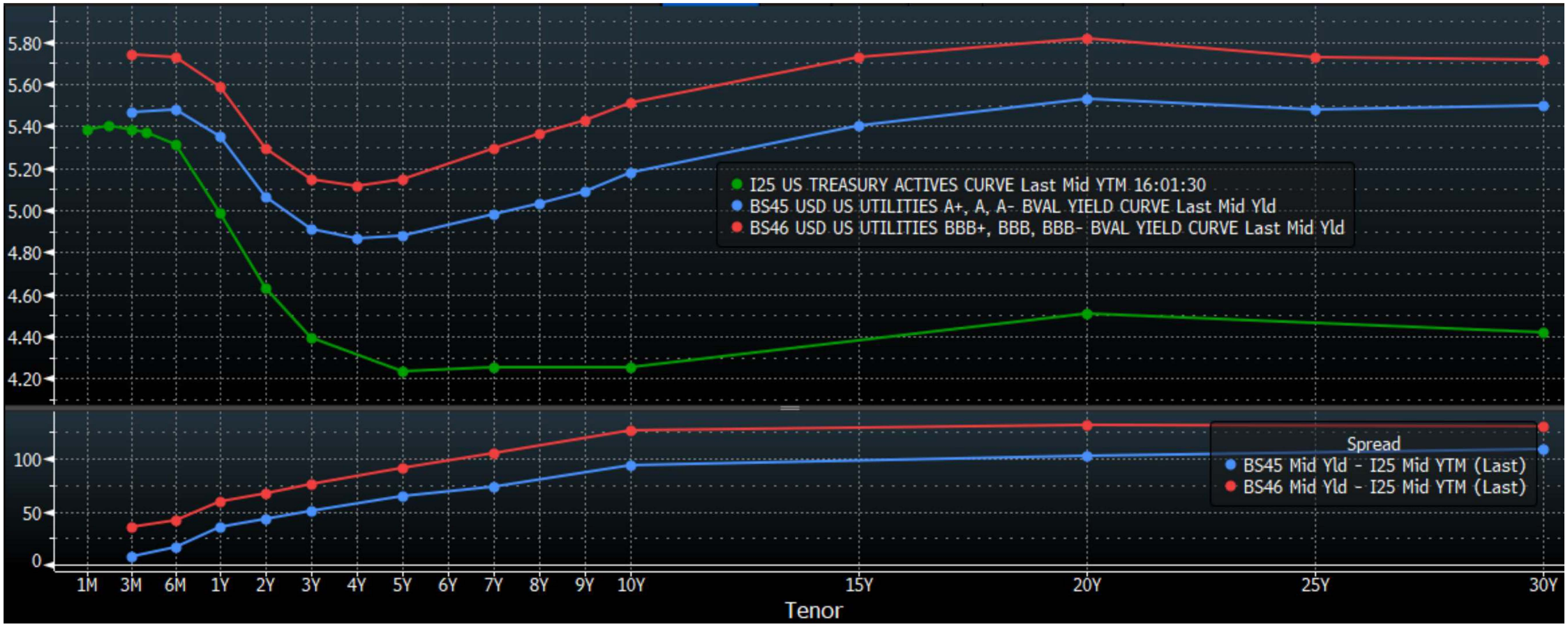
Attachment D

Bloomberg Current Investment Grade Utility Spreads Over UST

Bloomberg CRVF Function Plot -- Accessed by Staff on March 25, 2024



Referent Points of Interest:
10 Year Maturity Range from **A rated 93 bps** to B rated 126 bps,
30 Year Maturity Range from **A rated 108 bps** to B rated 130 bps.