ORDER NO. 99-599

ENTERED OCT 04 1999

BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UF 4165

In the Matter of the Amended Application of Portland General Electric Company for Authority to Issue and Sell Not More Than $200 Million of Debt Securities.	))))	ORDER

DISPOSITION: AMENDED APPLICATION APPROVED WITH REPORTING REQUIREMENTS

On March 3, 1999, the Commission received an application from Portland General Electric Company (PGE or the Company), filed pursuant to ORS 757.415 and OAR 860-027-0030, requesting authority to engage in the above captioned financial transactions. The Company filed revisions to its application on March 25 and March 29, 1999. At its Public Meeting on April 6, 1999, the Commission approved the application with reporting requirements. Subsequently on April 9, 1999, PGE filed another revision to the application which the Commission approved at its April 20, 1999, Public Meeting. On August 26, 1999, PGE amended its application to include a temporary adjustment to spreads.

Based on a review of the amended application and the Commission's records, the Commission finds that the amended application satisfies applicable statutes and administrative rules. At its Public Meeting on September 21, 1999, the Commission adopted Staff's recommendation to approve the amended application subject to reporting requirements. Staff's recommendation is attached as Appendix A and is incorporated by reference.

OPINION

Jurisdiction

ORS 757.005 defines a "public utility" as anyone providing heat, light, water, or power service to the public in Oregon. The Company is a public utility subject to the Commission's jurisdiction.

Applicable Law

ORS 757.415(1) provides that:

A public utility may issue [stocks and bonds, notes, and other evidences of indebtedness] for the following purposes and no others. . .:

(a) The acquisition of property, or the construction, completion, extension or improvements 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, for any of the purposes listed in paragraphs (a) to (c) of this subsection . . .

(e) *****

When an application involves refunding of obligations, the applicant must show that the original borrowings were made for a permissible purpose. *Avion Water Company, Inc.*, UF 3903, Order No. 83-244 at 3; *Pacific Power & Light Co.*, UF 3749, Order No. 81-745 at 5.

ORS 757.415(2) provides that:

[The applicant] shall secure from the commission. . .an order. . .stating:

(a) The amount of the issue and the purposes to which the proceeds are to be applied; and

(b) In the opinion of the commission, the [proceeds] reasonably [are] required for the purposes specified in the order and compatible with the public interest, which is necessary or appropriate for or consistent with the proper performance by the applicant of service as a public utility, and will not impair its ability to perform that service; and

(c) Except as otherwise permitted in the order in the case of bonds, notes, or other evidences of indebtedness, such purposes are not, in whole or in part, reasonably chargeable to operating expenses or to income.

The Commission believes that the proposed transaction is reasonably required for the purposes stated, is compatible with the public interest, and is consistent with the proper performance of the Company's public utility service. The proposed transaction will not impair the Company's ability to perform that service. The purposes of the proposed issuance are not, in whole or part, reasonably chargeable to operating expenses or to income.

For ratemaking purposes, the Commission reserves judgment on the reasonableness of the Company's capital costs and capital structure. In its next rate proceeding, the Company will be required to show that its capital costs and structure are just and reasonable. *See* ORS 757.210.

CONCLUSIONS

1. The Company is a public utility subject to the Commission's jurisdiction.

2. The Company's amended application meets the requirements of ORS 757.415.

3. The amended application should be granted.

ORDER

IT IS ORDERED that the amended application of Portland General Electric Company for authority to issue and sell not more than $200 million of first mortgage bonds and/or unsecured debt is granted, subject to the conditions stated in Appendix A.

Made, entered, and effective ________________________.

BY THE COMMISSION:

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Vikie Bailey-Goggins
Commission Secretary

A party may request rehearing or reconsideration of this order pursuant to 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 of OAR 860-014-0095. A copy of any such request must also be served on each party to the proceeding as provided by OAR 860-013-0070. A party may appeal this order pursuant to ORS 756.580.

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APPENDIX A **ITEM NO. CA 1**

PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: September 21, 1999

REGULAR AGENDA ____ CONSENT AGENDA X EFFECTIVE DATE

DATE: September 15, 1999

TO: Bill Warren through Marc Hellman

FROM: Bryan Conway

SUBJECT: UF 4165-Portland General Electric Co.'s Amended Application for Authority to Issue and Sell Not More Than $200 Million of Debt Securities

SUMMARY RECOMMENDATION:

I recommend approving the amended application, with four reporting requirements.

DISCUSSION:

On March 3, 1999, Portland General Electric Co. (PGE) filed an application pursuant to Oregon Revised Statutes (ORS) 757.415 & 757.480, and Oregon Administrative Rule 860-27-0030 for authority to issue and sell not more than $200,000,000 of first mortgage bonds (FMBs), medium-term notes (MTNs), or senior unsecured debt. The Commission on April 6, 1999 approved UF 4165. On April 13, PGE amended its application to clarify the treatment of unsecured sr. debt.

On August 26, 1999, PGE notified Staff that in current market conditions, spreads have increased to the point that PGE could not issue debt under this application. PGE subsequently amended its application to include a temporary adjustment to spreads. PGE proposes that as long as the 30-year Treasury is below 6.5 percent that the new proposed credit spreads (see table 3) take effect. The proposed credit spreads (valid as long as the 30-year Treasure is below 6.5 percent) add 50 basis points to each range of maturity. A basis point is defined as one-hundredth of a percentage point; i.e., 100 basis points equals 1 percent.

FMBs

The FMBs will have maturities ranging from three to thirty years, and will generally be sold through an underwriting process. The interest rates will be fixed. The all-in interest rate[1] will not exceed US Treasury rates plus a spread[2]. The proposed spreads depend on a FMB's maturity and are attached as Table 1. Underwriting commissions for issuing the FMBs will not exceed 0.875 percent of the aggregate issue amount. Other expenses are not expected to exceed $288,965. I recommend a reporting requirement to help ensure that underwritten FMBs are sold at market rates.

MTNs

The MTNs will be secured and have maturities ranging from nine months to thirty years. The all-in interest rates will be determined at the time of issuance and will be fixed. The fixed interest rate will not exceed US Treasury rates plus a spread. The proposed spreads depend on an MTN's maturity and are attached as Table 1. Agent fees for issuing the MTNs are not expected to exceed those shown on Table 2. Other expenses are not expected to exceed $288,965.

Unsecured Debt

The unsecured debt (unsecured by assets of the company) will be issued as senior unsecured debt and will be subject to the lien of the Company's First Mortgage Bonds. Senior debt has right of repayment over junior debt in the event of default. In some cases junior debt is considered to be equivalent to preferred stock by the rating agencies. The unsecured debt might be sold privately or publicly, and will have maturities from nine months to forty years. The all-in interest rate will be fixed. The interest rates will not exceed US Treasury rates plus the FMB/MTN spreads shown on Table 1 for comparable maturities, plus 25 basis points. The underwriters' commission will not exceed 1.25 percent for unsecured debt. Other expenses are not expected to exceed $303,965 for unsecured debt.

Use of Proceeds

PGE will use the proceeds for the following purposes: the acquisition of utility property or the construction, extension or improvement of utility facilities; the improvement or maintenance of service; the discharge or lawful refunding of its obligations (such as relatively higher-coupon debt and maturing debt previously authorized by the Commission); and reimbursing the company's treasury expended on utility purposes. To the extent the company's treasury is reimbursed, the original expenditures, or their precedents, were made for purposes described by ORS 757.415 (1) (a) or (b). To the extent that obligations are discharged or refunded, those obligations or their precedents were used for purposes described by ORS 757.415 (1) (a), (b) or (e).

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[1] The all-in interest rate includes the coupon and the appropriate fees or commissions, but it does not include other expenses of issue.

[2] PGE’s proposed all-in rate spreads in Table 1 appear just and reasonable, but they are higher than spreads authorized for other utilities and might be reviewed by Staff in any future filing.

PGE's application also indicates that it might sell the FMBs, MTNs, or unsecured debt through public offerings or private placements. I recommend a reporting requirement below to help ensure that any private placements are sold at market interest rates.

I am also concerned that any early refundings be cost-effective. I recommend a reporting requirement below to address my concern.

STAFF RECOMMENDATION:

I recommend the Commission approve PGE's application to issue not more than $200 million of debt securities in the form of FMBs, MTNs, and/or unsecured debt, subject to four reporting requirements: (1) PGE should demonstrate that it achieves a competitive rate on any publicly offered FMB (by providing at least one comparable MTN posting); (2) PGE should demonstrate that it achieves a competitive rate on any MTN by reporting two comparable MTN postings pursuant to any issuance and sale; (3) PGE should demonstrate that it achieves a competitive rate on any privately placed securities or unsecured debt; and (4) PGE should demonstrate that any early refundings are cost-effective.

PGE should also file the usual Report of Securities Issued and Disposition of Net Proceeds Statements as soon as possible after any issuance and sale.

For rate-making purposes, the Commission reserves judgement on the reasonableness of the Company's capital costs and capital structure. In its next rate proceeding, PGE will be required to show that its capital costs and structure are just and reasonable.

CC: John Thornton

Table 1
FMB/MTN Spreads over US Treasury
All-in Fixed-Rate Spreads

Greater Than or Equal To	Less Than	Maximum Spread Over Benchmark Treasury Yield[3]
9 months	2 years	+ 85 basis points[4]
2 years	3 years	+ 95 basis points
3 years	4 years	+ 105 basis points
4 years	6 years	+115 basis points
6 years	9 years	+115 basis points
9 years	10 years	+125 basis points
10 years	11 years	+130 basis points
11 years	15 years	+140 basis points
15 years	20 years	+145 basis points
20 years or more		+170 basis points

[3] The Benchmark Treasury Yield, with respect to any MTN maturity range, means the yield to maturity of that issue of direct obligations of the United States which, out of all actively traded issues of such obligations with a remaining term to maturity within such MTN maturity range, is generally considered by dealers in such obligation to be the standard for such obligations whether federal, state, or corporate, with approximately the same remaining terms to maturity. With respect to the issuance of any MTN, the Benchmark Treasury Yield shall be determined as of the time the commitment to purchase such MTN is received by the Company and the Agents.

[4] Basis point is defined as one-hundredth of a percentage point; i.e., 100 basis points equals 1 percent.

Table 2
Commissions to MTN Agents

Range of Maturities	Commission (Percentage of Aggregate Principal Amount of MTNs Sold)
From 9 months to less than 1 year	.125%
From 1 year to less than 18 months	.150%
From 18 months to less than 2 years	.200%
From 2 years to less than 3 years	.250%
From 3 years to less than 4 years	.350%
From 4 years to less than 5 years	.450%
From 5 years to less than 6 years	.500%
From 6 years to less than 7 years	.550%
From 7 years to less than 10 years	.600%
From 10 years to less than 15 years	.625%
From 15 years to less than 20 years	.700%
20 years and more	.875%

Table 3
FMB/MTN Spreads over US Treasury
All-in Fixed-Rate Spreads
(Valid if 30-Year US Treasury Bond Rates are Below 6.5%)

Greater Than or Equal To	Less Than	Maximum Spread Over Benchmark Treasury Yield[5]
9 months	2 years	+ 135 basis points[6]
2 years	3 years	+ 145 basis points
3 years	4 years	+ 155 basis points
4 years	6 years	+165 basis points
6 years	9 years	+165 basis points
9 years	10 years	+175 basis points
10 years	11 years	+180 basis points
11 years	15 years	+190 basis points
15 years	20 years	+195 basis points
20 years or more		+220 basis points

[5] The Benchmark Treasury Yield, with respect to any MTN maturity range, means the yield to maturity of that issue of direct obligations of the United States which, out of all actively traded issues of such obligations with a remaining term to maturity within such MTN maturity range, is generally considered by dealers in such obligation to be the standard for such obligations whether federal, state, or corporate, with approximately the same remaining terms to maturity. With respect to the issuance of any MTN, the Benchmark Treasury Yield shall be determined as of the time the commitment to purchase such MTN is received by the Company and the Agents.

[6] Basis point is defined as one-hundredth of a percentage point; i.e., 100 basis points equals 1 percent.