ORDER NO. 99-786

ENTERED DEC 23 1999

BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UF 4167

In the Matter of the Application of PACIFICORP for Authority to Issue and Sell not more than $1,600,000,000 of Debt Securities, Enter into Credit Support Agreements, and Enter into Currency Exchanges.	))))))	ORDER

DISPOSITION: AMENDED APPLICATION APPROVED WITH REPORTING REQUIREMENTS

On November 9, 1999, the Commission received an application from PacifiCorp(Company), filed pursuant to ORS 757.415, 757.580, and OAR 860-027-0030, requesting authority to engage in certain financial transactions. On December 6, 1999, the Commission received an amended application.

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 December 14, 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 application should be granted.

ORDER

IT IS ORDERED that the amended application of PacifiCorp for authority to issue and sell not more than $1,600,000,000 of debt securities, enter into credit support agreements, and enter into currency exchanges is granted, subject to the conditions stated in Appendix A.

Made, entered, and effective ________________________.

BY THE COMMISSION:

____

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.

ITEM NO. CA 1

PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: December 14, 1999

REGULAR AGENDA ___ CONSENT AGENDA __X__ EFFECTIVE DATE

DATE: December 2, 1999

TO: Bill Warren through Marc Hellman

FROM: John S. Thornton

SUBJECT: UF 4167—PacifiCorp's Application for Authority to Issue and Sell not more than $1,600,000,000 of Debt Securities, Enter Into Credit Support Agreements, and Enter Into Currency Exchanges

SUMMARY RECOMMENDATION:

I recommend approving the amended application, with reporting requirements.

DISCUSSION:

On November 9, 1999, PacifiCorp filed an application pursuant to Oregon revised statutes (ORS) 757.415, 757.480, and Oregon administrative rule 860-27-030 for authority to issue not more than $1,600,000,000 of debt. PacifiCorp requests authority to issue a broad universe of debt securities, described below.

First Mortgage Bonds (FMBs)
First mortgage bonds have been the traditional source of debt capital for U.S. utilities. FMBs are secured by a mortgage on PacifiCorp's fixed assets.

Medium-Term Notes (MTNs)
MTNs are typically offered through agents and can be sold on a continuous basis and in smaller denominations than traditional FMBs.

Floating-Rate Debt
Floating-rate debt is typically unsecured with interest rates that are reset anywhere from daily to annually. The most common indices used for pricing floating-rate debt are based on London Interbank Offered Rate (LIBOR), commercial paper, and Treasury bill rates.

Eurodollar Bonds (Eurobonds)
Eurobonds are dollar-denominated bonds sold outside the United States, generally in Europe or Asia. Eurobonds are generally sold through a foreign underwriter or a foreign subsidiary of a U.S. underwriter.

Foreign Currency Debt Combined with a Currency Exchange (Foreign Currency Debt)
Foreign currency debt is issued in a foreign currency and will be combined with a currency swap such that PacifiCorp will receive its principal in U.S. dollars and make all principal and interest payments in U.S. dollars. The currency exchange agreement will generally be negotiated with a third party whose long-term credit rating of A or better for agreements of less than five years and AA or better if the agreements is five years or longer.

Subordinated Debt
Subordinated debt is debt subordinated to other debt of the company. It may be issued to a "special purpose entity" (SPE) which will, in turn, issue preferred stock to the public. In this case PacifiCorp would also guarantee the SPC's preferred securities. The intention of such an arrangement is to maintain the tax deductibility of debt but obtain the benefit of having some amount of the securities considered equity on the utility's books.

Description of the securities' maturities and rates
The Securities will have maturities ranging from nine months to forty years, and will be sold through underwriters or agents, or privately placed directly to investors with or without the use of agents. The interest rates might be fixed or floating. If the interest rates are fixed, then they will not exceed US Treasury rates plus a spread. The proposed spreads depend on the Security's maturity and are attached as Table 1.[1] If the interest rate is floating, then the initial interest rate will not exceed one of four base rates plus a spread. The schedule of floating-rate spreads is included as Table 2.

Fees and expenses
Commissions to MTN agents will not exceed those shown on Table 3. Underwriting fees for issuing other securities will not exceed 3.15 percent of the aggregate issue amount. Other expenses are not expected to exceed $1,600,000.

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[1] These spreads are substantially higher than spreads proposed by PacifiCorp historically. Mr. William Peressini of PacifiCorp has represented that the new spreads represent "two standard deviations" in spread volatility" and provided data and calculations to support the new spreads.

Use of Proceeds

PacifiCorp 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, refunding the company's treasury expended on utility purposes. To the extent the company's treasury is refunded, the original expenditures, or their precedents, were made for purposes described by ORS 757.415 (1) (a), (b), or (e). 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) or (b).

PacifiCorp's application also indicates that it might sell the Securities through private placements. I recommend a reporting requirement below to help ensure that any private placements are sold at competitive market interest rates.

PacifiCorp's authority should be valid without specific termination date as long as it maintains investment-grade bond ratings (or higher) on its senior secured debt by both Standard and Poor's Corporation and Moody's Investors Service, Inc.

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

Effects on PacifiCorp's Capital Structure

I am concerned that such a large debt authority could have a materially adverse impact on PacifiCorp's capital structure if all the debt were issued and was not used to refinance existing debt or replace maturing debt issues. My concern is mitigated by the fact that PacifiCorp has now merged with and into ScottishPower and Commission Order No. 99-0616 established threshold minimums for PacifiCorp's common equity percentage. (*See* Order No. 99-0616, merger condition 6, Appendix-Stipulation 5, page 6 of 15.) Also, PacifiCorp has represented that it agrees that the authority granted it in this order does not supercede the threshold minimums in Order No. 99-0616.[2]

STAFF RECOMMENDATION:

I recommend the Commission approve PacifiCorp's application issue not more than $1,600,000,000 of debt securities subject to three reporting requirements: (1) PacifiCorp should demonstrate that it achieves a competitive rate on any publicly offered security (such as by providing at least one MTN posting in addition to any such posting under which an MTN was issued); (2) PacifiCorp should demonstrate that it achieves a competitive rate on any

[2] Discussions with Mr. William Peressini of PacifiCorp.

privately placed security by providing a comparable MTN posting and through any other means; and, (3) PacifiCorp should demonstrate that any early refundings are cost effective. PacifiCorp should file the usual Report of Securities Issued and Net Proceeds Statements as soon as possible after each issuance and sale.

Table 1
Fixed-Rate Spreads

Greater Than or Equal To	Less Than	Maximum Spread Over Benchmark Treasury Yield[3]
9 months	2 years	+ 140 basis points[4]
2 years	3 years	+ 150 basis points
3 years	4 years	+ 155 basis points
4 years	6 years	+180 basis points
6 years	9 years	+190 basis points
9 years	10 years	+200 basis points
10 years	11 years	+210 basis points
11 years	15 years	+215 basis points
15 years	20 years	+220 basis points
20 years	30 years	+230 basis points
30 years or more		+240 basis points

[3] The Benchmark Treasury Yield, with respect to any 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 debt security 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; ie, 100 basis points is 1 percent.

Table 2
Securities' Maximum All-in Spread Over Index
Floating-Rate Spreads

Term in Years	1	2	3	4	5	6	7
Index							
LIBOR	+50	+75	+85	+90	+95	+100	+110
CP	+60	+85	+95	+100	+105	+110	+115
T-Bills	+85	+110	+125	+130	+135	+140	+150
Fed Funds	+85	+110	+125	+130	+135	+140	+150

Table 3
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[5]	.750%

[5]PacifiCorp requests that the maximum commission be 0.875 percent when the agent purchases the MTN from PacifiCorp as a principal.