DECISION MEMORANDUM

TO:COMMISSIONERHANSEN

COMMISSIONER NELSON

COMMISSIONER SMITH

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DAVID SCHUNKE

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WORKING FILE

FROM:TERRI CARLOCK

DATE:JANUARY 8, 1999

SUBJECT:PACIFICORP APPLICATION ISSUE UP TO $250 MILLION PREFERRED STOCK; CASE NO. PAC-E-98-3.

RECOMMEND:APPROVAL

PacifiCorp requests authority to issue and sell or exchange up to $250 Million in preferred stock, in one or more public offerings or private placements.  This authority is requested through December 31, 2000.    At this time, PacifiCorp does not have regulatory authority to issue preferred stock.  The requested authority is expected to accommodate the financing flexibility needed by PacifiCorp to maintain a balanced capital structure while meeting financing requirements.

The type of issue (i.e. fixed or floating, perpetual or maturing) and the terms of issue including dividend rate will be determined at the date of issue.  PacifiCorp will notify the Commission Staff of the terms as soon as practical before issuance.  The type of issue will be based on the all-in costs and benefits of the alternatives.  The current dividend rate is estimated at 5.67% for fixed rate perpetual preferred stock.  The current initial dividend rate for floating rate preferred stock is estimated at 4.75%.

Proceeds from the preferred issuances will be utilized for 1) acquisition of property, 2) construction, completion, extension, improvement or maintenance of utility facilities, 3) improvement of services, 4) discharging or refunding of existing issuances or 5) reimbursement the Company’s treasury.  As of September 30, 1998, PacifiCorp had expended over $542 Million from Treasury funds for utility purposes not covered by other issuances or obligations.

The underwriters compensation fee is estimated at 3.15% of the aggregate principal amount of preferred issued, $7,875,000, and other issuance expenses are estimated at $670,000.

These expenses include:

Securities and Exchange Commission fees$69,500

Regulatory agency fees1,000

Company’s counsel fees100,000

Underwriters’ counsel fees and other expenses100,000

Accounting fees20,000

Printing and engraving fees150,000

Stock Exchange listing fees140,000

Rating agency fees75,000

Miscellaneous costs    14,500

            TOTAL$670,000

STAFF DISCUSSION AND RECOMMENDATION

At September 30, 1998 PacifiCorp’s capital structure consisted of 49.55% common equity, 2.95% preferred stock and 47.50% debt.   If the full $250 Million preferred stock in this case were issued at once, the proforma capital structure would consist of 48.08% common equity, 5.82% preferred stock and 46.10% debt. PacifiCorp has filed for authority to issue common stock in conjunction with the Scottish Power merger filing and plans to request additional debt authority.  The estimated total request for additional authority for common, preferred and debt is estimated by PacifiCorp at $2.05 Billion less retirement of $600 Million debt or $1.45 Billion.  If the full $1.45 Billion authority were issued at once, the proforma capital structure would consist of 43.7% common equity, 5.1% preferred stock and 51.2% debt.  The availability of the authority to meet requirements is the important consideration at this time and the probability of the full amounts being issued at one time is remote.  Currently PacifiCorp Preferred Stock is rated A3 by Moody’s, A- by Standard & Poor’s and A- by Duff and Phelps.

PacifiCorp requests the preferred stock authority be available through December 31, 2000 for various purposes.  Since the funds could be used in conjunction with the Scottish Power merger, Staff recommends expanding the language in the order stating approval of the issuance does not constitute approval of specific expenditures including merger expenses for ratemaking purposes.

COMMISSION DECISION

Should authority to issue or exchange up to $250 Million in preferred stock be approved?

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Terri Carlock

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