DECISION MEMORANDUM

TO:COMMISSIONERNELSON

COMMISSIONER SMITH

COMMISSIONER HANSEN

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TONYA CLARK

WORKING FILE

FROM:TERRI CARLOCK

DATE:MARCH 15, 1996

SUBJECT:PACIFICORP $750 MILLION DEBT AUTHORITY

CASE NO. PAC-S-96-1

RECOMMEND:APPROVAL WITH POSSIBLE CHANGE OF RATING TERM

PacifiCorp requests authority to borrow not more than $750 Million in debt, in one or more offerings for an unspecified amount of time.  The authority would replace $250 Million authorized but unissued in Case No.  PAC-S-93-3.

The type of issue (i.e. secured, unsecured, subordinated, unsubordinated) and the terms of issue including interest 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 interest rate will be established based on a published or quoted index of short-term rates.  The type of issue will be based on the all-in costs and benefits of the alternatives.  The latest issue of Secured Medium-term Notes was issued at 6.71% for a 30 year period on January 23, 1996.

The underwriters compensation fee is estimated at 3.15% of the aggregate principal amount of debt issued and other issuance expenses are estimated at $850,000.  These expenses include:

Securities and Exchange Commission fees$234,375

Regulatory agency fees1,000

Company’s counsel fees100,000

Underwriters’ counsel and other expenses150,000

Accounting fees40,000

Printing and engraving fees75,000

Rating agency fees150,000

Trustee fees25,000

Indenture recording fees45,000

Miscellaneous costs    29,625

           TOTAL$850,000

Proceeds from the debt issuances will be utilized for general utility purposes including improvement or maintenance of service or facilities, construction purposes, acquisition of utility property, discharge or refunding of existing issuances or to reimburse the Company’s treasury.  As of December 31, 1995 PacifiCorp had expended over $553 Million from Treasury funds for utility purposes not covered by other issuances.

At December 31, 1995 PacifiCorp’s capital structure consisted of 48.3% common equity, 7% preferred stock and 44.7% debt.   If the full $750 Million authority were issued at once the proforma capital structure would consist of 43.7% common equity, 6.4% preferred stock and 49.9% debt.  The availability of the authority to meet requirements is the important consideration at this time and the probability of the full $750 Million being issued at one time is remote.

STAFF DISCUSSION AND RECOMMENDATION

PacifiCorp requests the debt authority be continuous and remain effective as long as PacifiCorp’s senior secured debt rating is BBB or higher from at least two nationally recognized rating agencies.  Historically, the standard authority has been for 2 years.  This was originally based on SEC authorization limits that have now been raised or eliminated.  Some Commissions have allowed PacifiCorp’s authority to be based on the BBB rating guideline.  A longer period is not currently unreasonable for PacifiCorp from a financial position.  However given the unknown nature of competition in the electric industry, I discussed an alternative with PacifiCorp that would allow the Commission and Staff the opportunity to review the issues before the ratings drop more than two notches.  Currently PacifiCorp is rated A2 by Moody’s, A by Standard & Poor’s and A by Duff and Phelps.  I suggested the guideline be established at A- rather than BBB.  PacifiCorp’s concern was related to an industry-wide downgrade.  Therefore we agreed that if the Commission shared my concern it would be acceptable to set the rating guideline at A- and allow PacifiCorp 60 days from the date two or more nationally recognized rating agencies have rated the senior secured debt at A- or lower to show why the continued debt authority for unissued amounts is reasonable and should not be terminated.

COMMISSION DECISION

Should authority to borrow $750 Million in debt be approved?

Should the borrowing authority be longer than the historical 2-year period?

If yes, should the authority be continuous as long as the rating for PacifiCorp Senior Secured Debt is BBB or higher by two or more nationally recognized rating agencies?

Or should the authority be continuous as long as the rating for PacifiCorp Senior Secured Debt is A- or higher by two or more nationally recognized rating agencies and provide PacifiCorp the opportunity to show why the authority should continue if the ratings fall below A-?

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Terri Carlock

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