

Service Date: January 7, 1988

DEPARTMENT OF PUBLIC SERVICE REGULATION
BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MONTANA

* * * * *

In the Matter of the Application of)
PACIFICORP dba PACIFIC POWER & LIGHT)
COMPANY for (1) authority to (a))
borrow the proceeds of up to)
\$165,000,000 of Pollution Control)
Revenue Bonds to be issued severally)
by the Counties of Sweetwater and)
Converse, Wyoming; the Cities of)
Forsyth, Montana and Gillette,) UTILITY DIVISION
Wyoming, and (b) enter into such) DOCKET NO. 87.12.81
agreements or arrangements with the) DEFAULT ORDER NO. 5317
Counties or Cities and with other)
entities as may be reasonably)
necessary to effect the borrowing)
and to provide credit enhancement)
for the Bonds (2) authority to)
replace letters of credit supporting)
the Bonds and other Pollution)
Control Revenue Bonds.)

On December 21, 1987, PacifiCorp dba Pacific Power & Light Company (Pacific), a corporation organized and existing under and by virtue of the laws of the State of Maine and qualified to transact business in Montana, filed with the Montana Public Service Commission its verified application, pursuant to Sections 69-3-501 through 69-3-507, MCA, requesting an order authorizing Pacific (1) to borrow the proceeds of up to \$165,000,000 of Pollution Control Revenue Bonds (Bonds) to be issued severally by the Counties of Sweetwater and Converse, Wyoming (Counties); and the Cities of Forsyth, Montana and Gillette, Wyoming (Cities); (2) to enter into such agreements or arrangements with the Counties and the Cities

and with other entities as may be reasonably necessary to effect the borrowing and to provide credit enhancement for the Bonds; and (3) to replace or modify from time to time letters of credit supporting the Bonds and other Pollution Control Revenue Bonds. The borrowings will be in connection with the refunding of outstanding Pollution Control Revenue Bonds that were issued to finance certain air and water pollution control and solid waste disposal facilities (Facilities) at the Jim Bridger, Dave Johnston, Colstrip and Wyodak Generating Plants (Plants).

The application is supported by exhibits and data in accordance with the rules and regulations of the Commission governing the authorization of the issuance of securities by electric and gas utility companies operating within Montana.

For detailed information with respect to the general character of Pacific's business and the territories served by it, reference is made to its annual reports on file with the Commission.

The application sets forth Counsel who will pass upon the legality of the proposed issuance, the other regulatory authorizations required, and the propriety of the proposed issue.

At a regular open session of the Montana Public Service Commission held in its offices at 2701 Prospect Avenue, Helena, Montana, on January 4, 1988, there came before the Commission for final action the matters and things in Docket No. 87.12.81, and the Commission, having fully considered the application and all the data and records pertaining to it on file with the Commission and being fully advised in the premises, makes the following:

FINDINGS

1. Pacific is a corporation organized and existing under and by virtue of the laws of the State of Maine and is qualified to transact business in the State of Montana.

2. Pacific is operating as a public utility as defined in Section 69-3-101, MCA, and is engaged in furnishing electric and water service in Montana.

3. The Commission has jurisdiction over the subject matter of the application under Section 69-3-102, MCA.

4. Notice of the application was published as a part of the Commission's regular weekly agenda.

5. Pacific proposes to borrow the proceeds of up to \$165,000,000 of Pollution Control Revenue Bonds to be issued by the Cities and Counties. The proceeds will be used to refund currently outstanding pollution control revenue bonds that were previously issued to finance a portion of the costs of an undivided interest in the acquisition and improvement of certain air and water pollution control and solid waste disposal facilities (Facilities) for coal-fired generating plants, located near the Cities and Counties in Wyoming and Montana. The Facilities consist principally of systems to remove and finally dispose of particulates and sulfur dioxide from the flue gases and certain solid wastes. They are designed for the purpose of abating or controlling atmospheric and water pollutants or contaminants. Since pollution control bonds issued by a governmental unit are exempt from income taxation, the interest expenses associated with those bonds are lower than the expenses Pacific would incur if it issued otherwise comparable bonds itself.

6. Pacific also proposes to enter into such agreements or arrangements with the Cities and Counties and with other entities as may be reasonably necessary to effect the borrowing and pursuant to which Pacific would assume obligations as guarantor, surety, or otherwise with respect to the payment of the principal of, the interest on, and the premium (if any) on the Bonds.

7. Pacific expects to enter into reimbursement agreements, guarantees, pledges or other security agreements or arrangements to assure timely payment of amounts due in respect of the Bonds. Such arrangements are designed to lower the effective cost of the Bonds.

8. The Bonds will be issued pursuant to an Indenture of Trust between each City or County and a bank acting as trustee. The Bonds are expected to be Customized Purchase Bonds. Pacific requests authorization to borrow the proceeds of the Bonds in an aggregate principal amount not to exceed \$165,000,000. While Bonds have a nominal long-term maturity, the obligation has a "put" feature which enables the holder to tender the Bonds at par within a short notice period. Bonds are marketed with a variety of put frequencies, including weekly, monthly and variable puts. Because of the put feature, investors are indifferent to the final maturity of the instrument; as a result, Bonds may be structured with the largest maturity justified by the underlying assets being financed.

In view of the put feature, Pacific will enter into an agreement with a Remarketing Agent who agrees in advance to seek new purchasers on a best-efforts basis if and when the Bonds are put. To satisfy the investment criteria of potential purchasers, Pacific has arranged for letters of credit as a source of credit support and liquidity. All amounts required to purchase tendered Bonds which have not been successfully remarketed, as well as amounts required for payment of scheduled interest and principal at maturity or through acceleration, will be drawn under the letter of credit. Bonds temporarily held by Pacific may thereafter be sold back to other investors.

The Bond structure allows Pacific to select one of several tax-exempt, market rate pricing modes: the commercial paper mode

(maturity of 1 to 270 days), weekly or monthly rate modes, the Tender Interest Rate mode or the fixed-rate mode. The initial selection will depend upon a number of factors, including expectations as to which mode offers the lowest relative rates at the time of issuance. Subject to delivery of bond counsel opinions and the giving of notice, the weekly, monthly and variable term modes may be changed as often as desired throughout the life of the issue. During the time the CP Bonds carry a floating rate, the Bonds would be payable at par plus accrued interest at the end of any interest period.

The Bonds are expected to be issued and the related agreements are expected to be executed no later than March 15, 1988.

9. Pacific also requests authority to replace or modify from time to time existing letters of credit supporting the Bonds and other Pollution Control Revenue Bonds.

10. Shearson Lehman Brothers Inc. (Shearson), through its acquisition of E.F. Hutton, will serve as Underwriter and receive a fee of not more than 0.35 percent of the aggregate principal amount of the Bonds offered. Shearson will also serve as Remarketing Agent for the Bonds and receive an annual fee equivalent to the greater of 1/8 of 1.00 percent of the principal amount of the Bonds.

11. The expected results of the borrowing are:

ESTIMATED RESULTS OF THE FINANCING

Gross Proceeds	\$165,000,000
Less: Placement Fees	
Approximately 0.35%	577,500

Proceeds Payable to Pacific	164,422,500
Less: Other Expenses	<u>2,000,000</u>
Net Proceeds to Pacific	\$162,422,500 =====

12. The net proceeds of the borrowing will be used to refund currently outstanding pollution control revenue bonds which bonds were authorized by the Commission in earlier proceedings.

13. The proposed borrowing is a part of an overall plan to finance the cost of Pacific's facilities taking into consideration prudent capital ratios, earnings coverage tests, and market uncertainties as to the relative merits of the various types of securities Pacific could sell.

14. The issuance of an order authorizing the proposed financing does not constitute agency determination/approval of any issuance-related ratemaking issues which issues are expressly reserved until the appropriate proceeding.

CONCLUSIONS

The proposed borrowing to which the application relates will be for lawful objects within the corporate purposes of Pacific. The method of financing is proper.

The proposed credit support and other arrangements to which the application relates will be for lawful objects within the corporate purpose of Pacific.

The application should be approved.

ORDER

IT IS THEREFORE ORDERED by the Commission that:

1. The application of PacifiCorp dba Pacific Power & Light Company, filed on December 21, 1987, for authority to borrow the proceeds of up to \$165,000,000 of Pollution Control Revenue Bonds to be issued by the Cities and Counties, pursuant to Sections 69-3-501 through 69-3-507, MCA, and to use the proceeds for normal utility purposes, is approved.

2. The application of PacifiCorp dba Pacific Power & Light Company to enter into such agreements or arrangements with the Cities and Counties and with other entities as may be necessary to effect the borrowing and pursuant to which Pacific would assume obligations as guarantor, surety or otherwise with respect to the payment of the principal of, the interest on, and the premium (if any) on the Bonds and to enter into such arrangements with banks as may be necessary to enhance the credit quality of the Bonds, is approved.

3. The application of PacifiCorp dba Pacific Power & Light Company to replace or modify from time to time letters of credit supporting the Bonds or other Pollution Control Revenue Bonds, is approved.

4. PacifiCorp dba Pacific Power & Light Company shall file the following as they become available:

- a. The "Report of Securities Issued" required by 18 CFR 34.10.
- b. Verified copies of any agreement entered into in connection with the borrowing pursuant to this order.

- c. Verified copies of any credit support arrangement entered into pursuant to this order.
- d. A verified statement setting forth in reasonable detail the disposition of the proceeds of the borrowing made pursuant to this order.

5. Issuance of this order does not constitute acceptance of PacifiCorp dba Pacific Power & Light Company's exhibits or other material accompanying the application for any purpose other than the issuance of this order.

6. Approval of the transaction authorized shall not be construed as precedent to prejudice any future action of this Commission.

7. Section 69-3-507, MCA, provides that neither the issuance of securities by PacifiCorp dba Pacific Power & Light Company pursuant to the provisions of this order, nor any other act or deed done or performed in connection with the issuance, shall be construed to obligate the State of Montana to pay or guarantee in any manner whatsoever any security authorized, issued, assumed, or guaranteed.

8. This order shall be effective upon execution.

DONE IN OPEN SESSION at Helena, Montana, this 4th day of January, 1988, by a 5 to 0 vote.

BY ORDER OF THE MONTANA PUBLIC SERVICE COMMISSION

CLYDE JARVIS, Chairman

HOWARD L. ELLIS, Commissioner

TOM MONAHAN, Commissioner

DANNY OBERG, Commissioner

JOHN B. DRISCOLL, Commissioner

ATTEST:

Ann Purcell
Commission Secretary

(SEAL)

NOTE: Any interested party may request that the Commission reconsider this decision. A motion to reconsider must be filed within ten (10) days. See 38.2.4806, ARM.