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November 1, 2004

Via Facsimile, Electronically, and U.S. Mail

Ms. Annette Taylor
Oregon Public Utility Commission
P.O. Box 2148
Salem OR 97308-2148

Re: In the Matter of Oregon Electric Utility Company, LLC, et al., Application for Authorization to Acquire Portland General Electric Company
Docket No. UM 1121

Dear Ms. Taylor:

Enclosed please find an original and six copies of the Motion to Admit Late-Filed Exhibit on behalf of the Industrial Customers of Northwest Utilities in the above-captioned Docket.

Please return one file-stamped copy of the document in the self-addressed, stamped envelope provided. Thank you for your assistance.

Sincerely yours,

Ruth A. Miller

Enclosures
cc: Service List (via email)

BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UM 1121

In the Matter of OREGON ELECTRIC UTILITY COMPANY, LLC, et al., Application for Authorization to Acquire Portland General Electric Company.	)	THE INDUSTRIAL CUSTOMERS OF NORTHWEST UTILITIES' MOTION TO ADMIT LATE-FILED EXHIBIT

Pursuant to OAR § 860-013-0031, the Industrial Customers of Northwest Utilities ("ICNU") submits this Motion to Admit Late-Filed Exhibit in Public Utility Commission of Oregon ("OPUC" or the "Commission") Docket No. UM 1121. ICNU requests that Administrative Law Judges ("ALJs") Logan and Smith accept into the evidentiary record certain portions of pages 1-25, 35-37, 39-40, 53-54, and Exhibit 1 of the transcript of the deposition of Portland General Electric Company's ("PGE" or the "Company") President and Chief Executive Officer, Peggy Fowler (the "Deposition Transcript"). The specific portions of the Deposition Transcript that ICNU seeks to admit into the evidentiary record are attached as ICNU Exhibit No. 906. ICNU and PGE have stipulated to the admission of these portions of the Deposition Transcript. In addition, ICNU contacted counsel for Enron, Oregon Electric Utility Company, the Citizens' Utility Board, the City of Portland, and Commission Staff regarding this Motion. These parties do not object to the admission of these pages.

On October 20, 2004, ALJs Logan and Smith issued a Ruling (the "Ruling") denying ICNU's Motion to Admit the Deposition Transcript of Peggy Fowler into the

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evidentiary record in this proceeding. Also on October 20, 2004, ICNU made an offer of proof regarding the Deposition Transcript in order to preserve the right to seek review of the Ruling. ICNU has since reached agreement with PGE regarding the admission of the pages of the Deposition Transcript that are attached as ICNU Exhibit No. 906. PGE was the only party that objected to the admission of the Deposition Transcript into the record. As such, there is no longer any objection to admission of these portions of the Deposition Transcript. The agreement between ICNU and PGE regarding admission of the stipulated pages of the Deposition Transcript constitutes good cause to reopen the record and admit the stipulated pages as a late-filed exhibit.

WHEREFORE, ICNU requests that the ALJs grant this Motion to Admit Late-Filed Exhibit and accept the specified portions of pages 1-25, 35-37, 39-40, 53-54 and Exhibit 1 of the Deposition Transcript into the record.

Dated this 1st day of November, 2004.

Respectfully submitted,

DAVISON VAN CLEVE, P.C.

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Of Attorneys for the Industrial Customers of Northwest Utilities

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that I have this day served the foregoing Motion to Admit Late-Filed Exhibit on behalf of the Industrial Customers of Northwest Utilities upon the parties, shown below, on the official service list for Docket No. UM 1121, by causing the same to be electronically served on all parties who have an email address on the official service list, and by U.S. Mail, postage-prepaid, to those parties who do not have an email address on the official service list.

Dated at Portland, Oregon, this 1st day of November, 2004.

Ruth A. Miller

Ruth A. Miller

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Proposed ICNU/906 Exhibit

Examination by Ms. Davison

JULY 12, 2004, PORTLAND, OREGON

MS. DAVISON: I show it's 8:32, so let's go ahead and get started.

THE REPORTER: Okay, would you raise your right hand, please?

PEGGY YEVONNE FOWLER,

the witness, called by the Intervenor ICNU, having been first duly sworn, was examined and testified as follows:

Q (BY MS. DAVISON.) Could you please state your name and business address.

A Peggy Yevonne Fowler. Business address is 121 Southwest Salmon Street, Portland, Oregon, 97204.

Q And can you please state your title at Portland General Electric.

A My title is Chief Executive Officer and President.

Q How long have you had that title?

A I was named President in 1998, and then named CEO and President in April of 2000, or February of 2000. Anyway, early 2000, first quarter 2000.

So that's over four years.

Q What has been your role in the development, negotiation and now request for approval of the sale of PGE to TPG?

Examination by Ms. Davison

A My role has been to provide comment on sales documents, provide comment on process, and be involved in discussions around strategy and approach.

Q Who at Enron do you typically communicate with regarding the proposed transaction?

A The person I would talk most about the proposed transaction would be Mitch Taylor, and David Koogler, and then our board chairman, Corbin McNeill, and other members of the board as it would pertain to PGE ongoing operations.

Q And who is Stanley Horton?

A Stan Horton is -- I think his title is probably President of PIPECO, which is the gas pipeline subsidiary.

And I did report to Stan during the time frame -- I would have to review records to tell you exactly -- but certainly during the early part of the transaction and during the auction process for PGE Stan was my reporting manager at Enron.

Q Who do you report to now at Enron?

A That's a good question. I report to the board, essentially, Corbin McNeill's our Chairman, and I don't know as anyone has ever officially told me. I would assume Stephen Cooper. But really the board.

Q Who at TPG do you typically communicate with regarding the proposed transaction?

A Kelvin Davis, Carrie Wheeler and occasionally David

Examination by Ms. Davison

Bonderman. And then as part of Oregon Electric perhaps Tom Walsh.

Q Do you keep any personal files regarding the proposed transaction?

A The -- yes, I have a personal file on the TPG transaction that I provided for the record that you all reviewed. I don't think there's anything in there that's not on e-mail or isn't available on anything else.

Q In UM 814, that was the Enron acquisition of PGE.

A Right.

Q Enron agreed to a number of conditions to ensure that Enron did not weaken PGE's financial condition. And those conditions are called "ring-fencing provisions."

A Right.

Q Do you believe that the ring-fencing provisions provided adequate protection to PGE?

A (BY THE WITNESS.) I'm not a financial expert on these types of things, but looking at how PGE was able to maintain it's investment-grade rating through the process, I believe that the ring fencing did provide very adequate protection for PGE.

Q (BY MS. DAVISON.) Do you believe that the ring-fencing provisions were sufficient to insulate PGE from

Examination by Ms. Davison

Enron's bankruptcy?

THE WITNESS: Again, not being a financial expert or even a expert witness on these types of matters, I'm sure a lot of people could debate and talk about this, but from my perspective as CEO, the fact that we were able to maintain our

Examination by Ms. Davison

investment-grade rating I think shows that we were adequately protected.

Q (BY MS. DAVISON.) Can you describe how PGE has been impacted by Enron's bankruptcy?

A Under the bankruptcy process there has been an auction process where they have worked to sell PGE. And so the time of people to be involved in that, to review material, to work through all of that, has probably been somewhat just the greatest impact, taking people's time.

I would say the impact on employees of those who made investment decisions and -- in Enron stock or those who had 401(k) plans that they kept invested with Enron, that has been a major impact.

But in terms of our day-to-day operations, Enron has let us operate on a -- as a stand-alone company, allowed us to stay focused on providing safe, reliable and cost-efficient energy to our customers, and the bankruptcy process has pretty much just gone on while we've continued to operate.

Q Did Enron's bankruptcy impact PGE's credit rating?

A That certainly would take an expert witness. There's a lot of things that can impact credit rating. The nature of what's going on in the electric utility industry, what is happening in the regulatory environment of the state where the utility operates, certainly the financial status of the company itself and how it's doing within its service

Examination by Ms. Davison

territory as well as its owner.

Again, we were able to maintain investment-grade rating, so from our operating perspective we feel like we've done okay in that regard.

Q (BY MS. DAVISON.) Has Enron's bankruptcy impacted PGE's access to capital?

A Enron's bankruptcy hasn't impacted our ability to access capital. We've been able to do the financials and do what we have needed to do to operate the business.

Q Has it impacted PGE's cost of capital?

A To reply to that one, again, expert witnesses would have to look at that, I'm not a financial expert. I'd need to consult with my financial people and I think even then again you'd be back to experts because a lot of things impact cost of capital, and to say that the bankruptcy, as compared to what's going on in the utility industry or even the regulatory process here in Oregon and what's going on in financial markets, I think it would be difficult to, to determine what

Examination by Ms. Davison

impact the bankruptcy had and I'm certainly not qualified to assess the cost-of-capital question.

Q Did PGE lose the use of its commercial-paper program?

A I would need to consult with my financial expert Jim Piro. We made some decisions around the use of our commercial-paper program, but I really, I can't answer that one. Jim would need to answer that one.

Q Did PGE have to post collateral on its electric trades as a result of Enron bankruptcy?

A PGE, like other utilities, has been following a very strict process of requesting collateral from other companies, and posting collateral with other companies so we could do trading. That's part of the process of the trading business.

The impact of Enron's bankruptcy on that, to separate that from just the whole trading function, I think would be difficult to do.

But we post collateral, we collect collateral. I don't know as there have been changes because of the bankruptcy.

Q I am handing you a document that is a Response, an Oregon Electric Response, to a data request of CUB number 39. And if you turn back to the page that has a Bates number OE 113297.

A Okay.

Examination by Ms. Davison

Q And I should say this is a document entitled Fitch Ratings.

A Right.

Q And October 2003 is the date.

If you look at the second paragraph on that page, if you could take a moment to read that.

Do you agree with Fitch's views of the effectiveness of the Enron ring fence?

THE WITNESS: There are three rating agencies: Moody's, Standard & Poor's and Fitch. And during the entire process we had a very difficult time getting Fitch to pay attention or understand the fundamentals of Portland General Electric and what was really going on. And the way most of our contracts are written it requires just two rating agencies, Moody's and Standard & Poor's. So we didn't spend too much time and energy working with Fitch, actually.

Q (BY MS. DAVISON.) So does that mean that you don't agree with their conclusion in that paragraph?

A I agree with portions of things in this paragraph in terms of their conclusion,

Q Let's take it sentence by sentence. The first sentence says, "Portland General was adversely affected due to contagion from Enron."

Do you agree with that statement?

Examination by Ms. Davison

THE WITNESS: That's a really general statement, "adversely affected due to contagion from Enron."

No, I'd have a hard time totally agreeing with this statement.

And I certainly -- the second sentence, "Although its financials were consistent with a strong investment-grade issue," that part is very true. We had very strong financials. And we were able to borrow some on an unsecured and some on a secured, just depends on what it was. So this is a general statement that isn't totally true.

Their downgrade doesn't make -- I mean, I can't agree or disagree with that one. We did fine with the others.

And I don't agree with their last sentence because I think that evidence showed that we were able to, with the major rating agencies, Moody's and Standard & Poor's, able to maintain investment-grade rating.

MS. DAVISON: I'd like to have this document marked as Exhibit One.

(Whereupon Deposition Exhibit Number One was marked for identification.)

THE WITNESS: I would say again, not being a financial expert, remembering my background's not as a chief financial officer, or anyone who has even worked in that area

Examination by Ms. Davison

as an accountant, Jim Piro, others, would certainly be better qualified, our investment people, to address a fair amount of this.

Q (BY MS. DAVISON.) Do you know of any additional protections that could have been adopted to prevent Enron's bankruptcy from impacting PGE?

THE WITNESS: Ultimately the golden share was put in place by the board that did provide some additional protection. Or it was perceived as providing additional protection by, particularly, Moody's.

Q (BY MS. DAVISON.) Can you explain the golden-share concept?

A The golden-share concept essentially gives a voting share to a minority stakeholder that would absolutely have to approve a company being taken into bankruptcy. And essentially their job is to make sure that that does not occur.

And that's a very general concept and an attorney or a financial expert could do a much better job of that.

Q Are you aware of any of the Enron merger conditions from UM 814 that have been violated?

A I'm not aware of any that have been, but it's been some time since I have studied them.

Examination by Ms. Davison

Q If you refer back to the Merger Conditions, and you look at number seven on page two of 17.

A Mm-hm.

Q It states that, "Enron, PGE, and Commission Staff agree that the allowed return on common equity and other costs of capital will not rise as a result of the merger."

Do you believe that that is accurate, that you have not experienced any increase in your cost of capital as a result of the merger with Enron?

(Record read.)

THE WITNESS: I think I talked about cost of capital before, and cost of capital takes a lot of expert people to

Examination by Ms. Davison

look at and discuss, and there's a lot of things that impact cost of capital: What's going on in the industry; what's going on in financial markets; the regulatory environment in the state.

So it would be -- it's very difficult to discern that the merger would have had any impact any more than any of the other things that have been going on. And I'm, I'm not qualified to assess that or know that.

But from my perspective, I don't think that the merger created a major issue for us here.

Q (BY MS. DAVISON.) TPG has proposed a similar ring-fencing condition. Do you believe that a condition similar to number seven, seven before you, is sufficient to insulate PGE from any Oregon Electric or TPG financial downfall?

A Yes, I do believe it is sufficient.

Q Do you believe that a golden-share approach should also be adopted?

Examination by Ms. Davison

THE WITNESS: I don't think it's necessary with these provisions that are here; they're sufficient, in my personal opinion. Not being a financial expert.

Q (BY MS. DAVISON.) Did you ever attend any of the TPG Investment Review Committee meetings?

A No, I don't even know what the TPG Investment Review Committee meetings were, I guess. Are you talking about with the state? With Enron? With --

Q It's an internal TPG committee.

A No, I haven't attended any internal TPG meetings.

Q Do you know when TPG began negotiations with Enron to purchase PGE?

A No, I don't know exactly when this did begin.

Q Has PGE presented any short-term plans for PGE to TPG in relationship to the proposed transaction?

THE WITNESS: The only information we have shared with TPG is our ongoing statement of direction and our score cards and what we're working on. We have not done anything on future plans because that would be speculation at this point

Examination by Ms. Davison

and it's too early in the process.

Q (BY MS. DAVISON.) Can I conclude from your answer that PGE does not have any long-term plans other than your IRP or something of that nature?

THE WITNESS: PGE is always working to make sure that our operations continue. We're just -- tomorrow I'll be signing a license agreement with the tribes, which is actually a 50-year agreement, so that is certainly long-term.

Examination by Ms. Davison

Many of our power-plant decisions are long-term decisions around operating facilities.

We, as we look at our strategic plan we probably focus more in the three- to five-year time frame; that has very little to do with ownership, that has more to do with the nature of the industry right now, and continuing changes in deregulation.

But we have tried to manage the business looking for the long-term benefit of our customers and the service we provide.

Q (BY MS. DAVISON.) If TPG acquires PGE do you have any reason to believe that it will impact PGE's plans regarding Port Westward?

A I have no reason to believe that it will. The discussions with TPG around Port Westward have been supportive, once we have gotten through all the information and the understanding and shared with them the IRP process and what was available from bidders in that process.

(Inquiry by reporter.)

MS. DAVISON: There's too many similar acronyms here.

Q (BY MS. DAVISON.) Will the TPG proposed acquisition impact the financing of Port Westward?

A That, I would -- that would be speculative for me to know on that. More than likely we'll have that plant financed

Examination by Ms. Davison

and hopefully we won't -- let's see, let me think, the TPG transaction shouldn't impact the financing of Port Westward.

We haven't, as yet, made a financial decision on Port Westward, we are still waiting for acknowledgement and rate-treatment information from the Commission on Port Westward.

Q Just isolating the TPG proposed transaction here, does it impact the timing in any way of Port Westward?

A No, the Commission is impacting the timing of Port Westward.

Q Have you had any discussions with TPG regarding your expectations of future rate levels?

A Yes, our goal for future rate levels has been to keep rates stable. And to not have large increases or decreases but to try to get to some predictability and stability for our customers.

Q Do you have discussions with Enron regarding your rate levels?

A I have discussions with the PGE Board of Directors who are part of Enron about our rate levels and expectations and very -- the same discussion that I just described.

Q Are you currently in control of the daily functions at PGE?

A Yes.

Q What role does Enron have with regard to your daily

Examination by Ms. Davison

decision-making?

A The role of Enron is not much different than a regular board of directors in terms of ensuring that the company have a ongoing successful operation, that it meets customer's needs, that it receives a fair return for the shareholders or the investors in this case.

And so we talk about our ongoing operations. We have a score card that lists all the major areas from reliability to safety to financial performance, and monitor those on an ongoing basis.

We have strategic initiatives in each of those areas that we're working on and I frequently discuss those with our board members and share results with them.

Q Is it a fair characterization to say that since you've been CEO that Enron has been relatively hands-off on your daily operations?

A Yes, I would say that that's a fair characterization.

Q Is it correct that PGE has approximately 240 million dollars in reserves as a result of unpaid dividends to Enron?

THE WITNESS: Jim Piro could talk specifically about the numbers, but that amount is approximately correct because we have not been paying dividends up to Enron but have been maintaining those at Portland General Electric until a sale or transaction transpires.

Q (BY MS. DAVISON.) According to Mr. Davis's testimony, Enron has not been paid a dividend since 2001. Does that sound correct to you?

A Yes.

Q Why has Enron not collected a dividend?

THE WITNESS: Enron has been in bankruptcy and the financial markets have been such that it makes as much sense for PGE to retain that money as it would be to give it to a parent. So it makes more sense for operating use.

Q (BY MS. DAVISON.) Do you have access to the 240 million dollars?

A Essential- --

Examination by Ms. Davison

THE WITNESS: Essentially we're assuming that at some point in time that money does get paid out to a buyer or to a parent. But we do have access as we look at our operations with that.

A financial expert like Jim Piro could give you a much better answer to that question.

Q (BY MS. DAVISON.) Where are PGE board meetings held?

A Generally-speaking our board meetings are held here in Portland. All of the meetings with our current board have been in Portland. Occasionally we might have just a teleconference, short board meeting on a specific item that needs action.

Q Is the PGE board required to get the consent of Enron for any of its actions?

A Yes, the bankruptcy court requires consent of Enron, consent of the court, for some items. So yes, there is a process and very clear procedures we follow.

Q Do you recall what some of those items are?

A Certain expenditure levels, and I don't recall the exact amount. But it is all defined in policies and procedures. Just like any corporate approval process, levels of approval are required on what they go through. And it's probably been, I would think, in the disclosure

Examination by Ms. Davison

document some place.

Examination by Ms. Davison

Q (BY MS. DAVISON.) How will your role at PGE change if this acquisition by TPG is approved?

A It's hard for me to speculate on that for certain, but TPG has asked me to stay on as CEO and to be part of the board. So I wouldn't anticipate a great deal of change.

Q Do you know what alternatives were considered by Enron in addition to the sale of PGE to TPG?

A I know what some of the alternatives were, because we talked to different buyers, and certainly I'm aware of the stock distribution.

Q Some of the buyers that you have talked to in the past, do you consider them to still be interested in PGE?

A (Shakes head.)

Examination by Ms. Davison

THE WITNESS: To my knowledge the TPG transaction is the only offer that's being considered.

Q (BY MS. DAVISON.) But my question was whether any of the previous potential buyers that you've talked to --

A (Shakes head.)

Q -- remain interested in PGE.

A I don't have any knowledge of that.

Q (BY MS. DAVISON.) In your opinion do you think TPG will be successful in its attempt to purchase PGE?

MR. DUDLEY: Go ahead and answer that.

THE WITNESS: In my opinion I think TPG has prepared a good case and laid a good foundation to be successful. But there is a lot more process that needs to be completed.

Examination by Ms. Davison

Q (BY MS. DAVISON.) So you don't have an opinion on the likelihood?

A I don't have an opinion. (Shakes head.) Having been through this a couple of times before, you learn to be patient and to focus on the business of what we do every day and try not to think too much about the transaction. That's other people's jobs.

Q (Nods head.) What are the alternatives if the TPG acquisition falls through?

A The only alternative that's described is the stock distribution, although I think Bob Bingham in his testimony there even says that there is a potential of a sale from that too. But the stock distribution is what the alternative would be if the TPG transaction doesn't go forward.

Q Can you generally describe the stock-distribution process?

A I think Bob Bingham's does a far better job of that than I can. There's a lot of uncertainties involved in that process, and his testimony does the best job of explaining it.

Q Do you have any plans in place as a plan B if TPG falls through and you do proceed on a stock-distribution process?

A No, we have no plans in place because we have really tried to focus on our business of providing energy to our customers and in that case the ownership scenario are -- or

Examination by Ms. Davison

what occurs shouldn't have a huge impact.

So we're just, we're trying to move forward and do what we need to do to ensure our business does what it does for customers.

Q If the TPG transaction falls through and Enron creditors move forward with the stock distribution, do you see that having any short-term impacts on PGE's operations?

A Any type of change has short-term impacts in terms of relationships with communities or relationship with employees. So there would be some impact.

But again, our business is what it is, and much of it is long-term in nature in terms of taking care of the poles and wires and the customer systems and running the plants. And those types of things shouldn't be affected under a TPG ownership or a stock distribution.

Examination by Ms. Davison

Q Do you believe that TPG or Oregon Electric will seek to impose any cost cuts at PGE if the transaction is approved?

A My discussion with the principals at TPG have been that they would expect us to manage the business efficiently. That in the beginning, I think as described in Kelvin Davis's testimony, we would do a top-to-bottom review of the company and look for where there would be efficiencies that management thinks makes sense.

And I think that process is really the only indication I have of what expectations of working with them would be like.

Q Do you have the ability to do this top-to-bottom review of efficiencies without TPG or Oregon Electric owning PGE?

A Yes, we try to constantly review all areas of the company. Sometimes it is very helpful to have some outside eyes come in and help with that. We have used some outside bench-marking companies in the past but it's been a number of years since we have done specifically anything along those

Examination by Ms. Davison

lines.

Q And why is that?

A Because we think many of the efficiencies that are available we have been working on or are continuing to work on in terms of new customer-information systems or new programs for customers. And we try to be efficient and effective in the work that we do. And we do do some bench-marking and have a pretty good indication of how we compare for our customer-service costs and our A and G costs and other types of costs.

Q So is it your expectation that if the new PGE board institutes this top-to-bottom review for increased efficiencies that they won't find much?

A I think you can always find ways to be more efficient. And so I think it is possible to find some things. I think also that they will be able to learn more about the operation of the company and be certain, have a good balance, make sure that we're not compromising reliability or safety for cost efficiency.

Q Do you know if TPG has identified a management team if TPG owned PGE?

A I don't know as they have identified a management team, no; they have identified now a board of directors and talked with me about being CEO. But -- and have expressed confidence in our CFO and some of our other managers.

But to my knowledge they haven't identified a

Examination by Ms. Davison

management team, per se.

Q   So you're not aware of any employment contracts that TPG has offered anyone at PGE?

A   No, I am not aware of any employment contracts.

Examination by Ms. Davison

Q Are you aware of any TPG plans with regard to out-sourcing of PGE functions?

A No, no, I'm not.

Q Is it fair to conclude then that Enron's ownership of PGE has not negatively impacted PGE's service to its customers?

A I think we've been able to maintain our service to our customers because of the requirements that were put in place as part of the merger condition that we do that. It's hard to say that there isn't any impact because always a public-relations side of something as ugly and ghastly as a company that's disintegrated has some impact on employees and customers and everything else.

But I think in terms of safety and reliability and efficiency, the company has done amazingly well through

Examination by Ms. Davison

everything.

Q Do you consider PGE to be a local company under Enron's ownership?

A I'm --

MR. DUDLEY: (Starts.)

Go ahead. Sorry.

THE WITNESS: I'm just back to the other piece.

I'm really proud of the employees and of what a good job they've done and how well they have held up through everything.

And these are employees who live where they work. We can't be in Denver and take care of the poles and wires.

So yes, I consider us to be a local company.

Examination by Ms. Fisher

MS. FISHER: Ann Fisher on behalf of Building Owners and Managers Association of Portland. I think I have four questions. I thought I only had three, but actually you said something I wanted to come back to.

DIRECT EXAMINATION

BY MS. FISHER:

Q By way of background you had some discussion with Ms. Davison about the approximately 240 million dollars held in reserve reflecting unpaid dividends. And you said at one point it made more sense for operating use to keep those reserves at PGE. So that's the background.

If there was a stock distribution, as opposed to a purchase by TPG, what is your understanding of what would happen to those reserves?

A My understanding is those would move to the creditors' committee as part of the distribution of PGE at that point in time.

Q Have you had any internal discussions regarding how the company will move forward once the reserves are distributed, either in a stock distribution or taken by TPG?

Examination by Ms. Fisher

MS. FISHER: I will restate the question using the word "funds."

Q (BY MS. FISHER.) But once again, referring to the 240 million dollars of un- --

A No.

Q -- -paid dividends.

A No, we have always maintained our operations as though that money would not be there. So as we've worked on our revolvers, as we've worked on other type of things, we've done that with the assumption that that money would be gone.

Q Then would you explain what you meant by the comment you made earlier which was "... makes more sense for operating use."

A That perhaps could have been an incorrect comment in terms of it makes more sense for us to invest it in Portland, as opposed to the Creditors' Committee investing it or Enron investing it, because since the company's in bankruptcy, there's no distribution going forward, and given the financial markets right now, there's no advantage of it being in one place over the other, so it just as well stay with us.

Q Okay, thank you.

Exhibit 1

REQUEST CUB/OEUC 39:

In the UM 1121 workshop on 5/6/04, the Applicants stated that credit rating agencies cite PUC Enron ring-fencing as a model to create a separation between PGE secured debt and OEUC debt. Please provide support for this assertion.

APPLICANTS' RESPONSE TO REQUEST CUB/OEUC 39:

Please see Exhibit A to Applicants' Response to Request CUB/OEUC 39, "Fitch Ratings: The Ripple Effect," by Richard Hunter, October 2003.

Please see Exhibit B to Applicants' Response to Request CUB/OEUC 39, Standard & Poor's Utilities & Perspectives: Global Utilities Rating Service, "An Enron Subsidiary is Ring-Fenced," by Swami Venkataraman & James Penrose, January 20, 2003.

FitchRatings

The Ripple Effect

Bankruptcies, Ring Fencing and Recoveries

Richard Hunter
15th Annual Fitch Global Power Breakfast
October 2003

Presentations

I.	Richard Hunter	Introduction and Rating Context (1 - 6)
II.	Robert Hornick	Bankruptcy and Default Ratings (7 - 14)
III.	Denise Furey	Effect of Defaults on Counterparties (15 – 21)
IV.	Sharon Bonelli	Effect of Defaults within Affiliate Groups (22 – 30)
V.	Ellen Lapson	Outlook for the Wholesale Power and Gas Sector (31 - 45)

Effect of Ring-Fencing on Ratings

More Frequent	Corporate subsidiary with strong ring-fencing and no business linkage with parent	Fitch may rate subsidiary higher than parent, (two notches typical for IG, wider in speculative grades)
Less Frequent	Corporate subsidiary with substantial linkage and weak ring-fencing	Parent and subsidiary ratings are similar
Less Frequent	Securitization e.g. stranded costs, A/R securitization	Ratings of SPE are not constrained by parent or affiliate ratings

FitchRatings

So how can ring-fencing efforts help to limit group linkage contagion?

As shown in the first row, most of the utility groups rated by Fitch have fairly tight ring-fencing to separate affiliates and do not have substantial business or financial linkages. For investment grade utility groups that have effective business and financial separations in place, the most typical notching between the parent and lower risk utility subsidiary ratings is one to two notches. Non-regulated businesses that have higher business risk are typically rated lower than the parent company. Ratings of related issuers can widen out considerably in below investment grade categories if strong ring fencing is in place. Fitch's scrutiny of ring-fencing efforts increases for companies rated in below investment grade categories. As Rob Hornick mentioned earlier, there have been no substantive consolidations in utility bankruptcies to date, but affiliates nonetheless can suffer in many ways from an insolvent parent or affiliated entity.

The second row shows a less common situation in which ring-fencing measures are weak or completed negated by a material business linkage, such as a significant inter-company loan, centralized cash management and funding or a power supply contract. If this is the case, then ratings for the various issuers in the group will be the same or be very similar.

The last row shows the impact of a securitization. Propoerly structured through a bankruptcy remote special purpose entity, this is the only way to completely de-link and isolate an issuer's rating from those of others in its affiliated group.

Rating Inter-Relationships

	Dec-00	Current	Change
Allegheny Energy	A	BB-	7
Monongahela Power	A+	BBB-	5
Allegheny Energy Supply	BBB+	B-	8
Southern Company	A	A	0
Georgia Power	A+	A+	0
Southern Power*	BBB+	BBB+	0
Enron Corp.	BBB+	D	16
Portland General	A+	BB	7
Dynegy Inc.	BBB	CCC+	8
Dynegy Holdings Inc.	BBB+	CCC+	9
Illinois Power	BBB+	CCC+	9

* New senior unsecured rating assigned 11/13/01

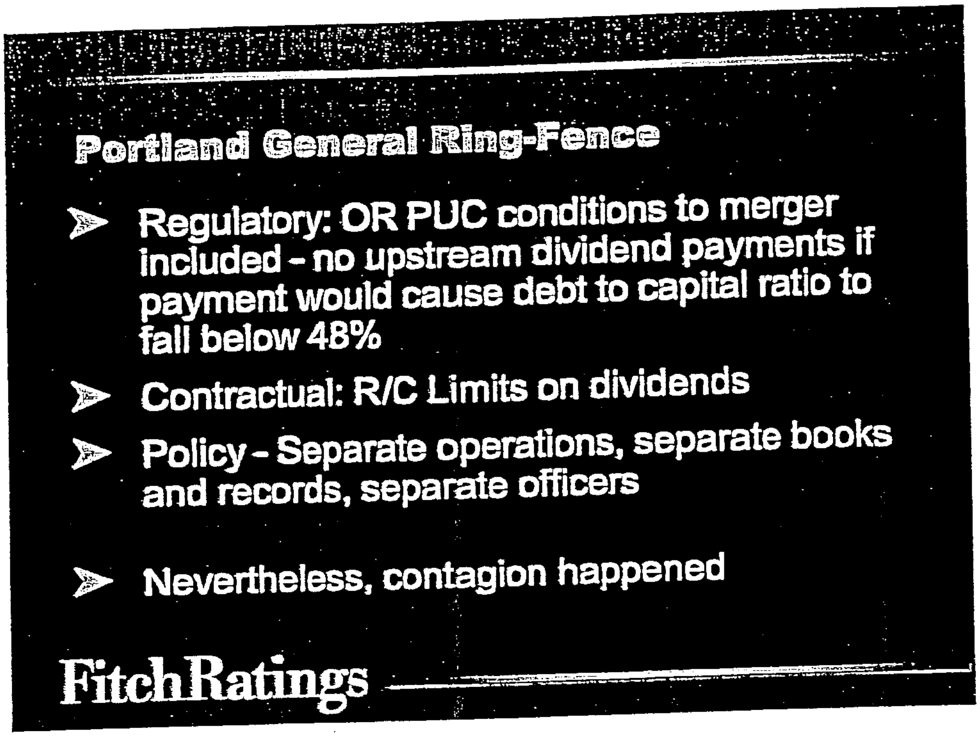
FitchRatings

Let's look at some specific companies as examples.

Allegheny Energy, the parent holding company of Allegheny Energy Supply, is an unregulated wholesale subsidiary that became troubled, as well as a number of regulated utilities, including Monongahela Power. The distance between the ratings of the issuers in the Allegheny group back in December 2000 was fairly typical in the investment grade category. There was one notch between the senior unsecured ratings of the parent company and the utility subsidiary, and 2 notches separating the ratings of the parent and the unregulated, higher risk subsidiary. Currently, the notching is wider. The utilities in the group have reasonable ring-fencing limits on upstream dividends and other financing restrictions. Also, the utility subsidiaries participate in a shared "money pool", but neither the parent nor the supply company can borrow from the pool.

The second example of rating differentials among related issuers is the Southern Co. Note the rating distribution: the parent rating is one notch below that of Georgia Power and two notches above the rating of Southern Power, which is a non-regulated generation subsidiary.

Enron and the Dynegy group illustrate opposite ends of the spectrum. Enron/Portland General Electric is an example of ring-fencing that works as well as can be hoped for in the event of the actual bankruptcy of the parent. Dynegy is an example of a company with affiliate linkages that are so great that there is no notching at all among the related issuers.



In Fitch's view, Portland General Electric has an effective ring-fence. It has all three types of ring-fencing. Ring-fencing measures were put in place by regulators as conditions precedent to the Enron acquisition, contractually by creditors through its bank agreements, and by the company's own policies. The way we think about it is that the most effective ring-fences are made through the collective use of all of these types of ring-fencing measures.

However, despite these efforts, when Enron filed, Portland General was adversely affected due to contagion from Enron. Although its financials were consistent with a strong investment grade issuer, Portland General was unable to access the CP markets or to borrow on an unsecured basis. Mainly as a result of this lack of capital market access, it was downgraded to the 'BB' category. A 'BB' rating does not imply a very high likelihood of default. The take-away lesson is that perfect ring-fences are impossible to construct, except through a securitization, because contagion happens.

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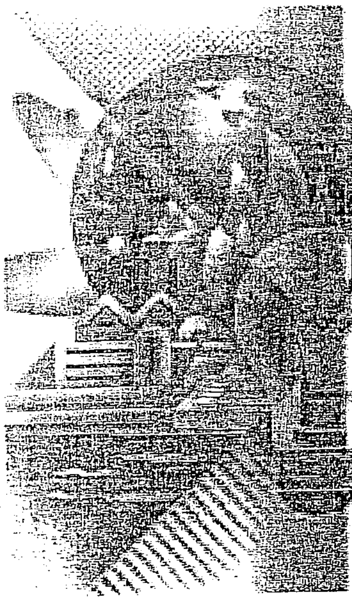

Standard & Poor's
UTILITIES & PERSPECTIVES
GLOBAL UTILITIES RATING SERVICE

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STANDARD
&POOR'S

OE 113298

An Enron Subsidiary Is "Ring-Fenced"

On Nov. 25, 2002, Standard & Poor's affirmed Portland General Electric Co.'s (PGE) 'BBB+' corporate credit rating following the implementation of ring-fencing structures designed to insulate the credit quality of PGE from that of its parent Enron Corp. (D/—/—). As a result, PGE is the only Enron subsidiary to be rated on its own credit merits.

In October 2001, Northwest Natural Gas Co. (Northwest; A/Stable/A-1) had agreed to buy PGE from Enron. Subsequently, Standard & Poor's lowered its ratings on Enron Corp. following that company's bankruptcy. PGE's ratings were not lowered, reflecting Standard & Poor's expectation that PGE would be sold to Northwest under the above-mentioned contract of sale that had been executed prior to Enron's bankruptcy. Following the mutual termination of the sale agreement between Enron and Northwest, Enron's management committed to establish, and subsequently implemented, mechanisms to isolate, or "ring-fence," the credit quality of PGE from that of Enron. This ring-fencing enabled PGE to maintain ratings that were more indicative of its stand-alone credit quality.

The PGE Ring-Fencing

In the days following the termination of the sale agreement with Northwest, Enron's management assured Standard & Poor's in writing that it had no intention of bringing PGE into its bankruptcy, a fact that was key to the maintenance of PGE's rating. In addition, Enron commenced an auction for 12 of its operating businesses, including PGE, indicating management's intent to keep PGE out of the Enron bankruptcy and further bolstering the case for rating PGE on a stand-alone basis.

However, these developments were not, by themselves, sufficient to enable PGE to maintain investment-grade ratings. Transwestern Gas Pipeline Co., another 100%-owned subsidiary of Enron involved in the auction process, is rated BB/Watch Pos/—. These ratings are not based on the stand-alone credit quality of Transwestern because Transwestern could still remain a part of a reorganized holding company, of uncertain credit quality, that emerges from bankruptcy.

Ring-Fencing and Economic Disincentives

In general, the rating of a weaker parent constrains the rating of an otherwise financially healthy, wholly owned subsidiary. A weak parent has the ability and may have the incentive to siphon assets out of its financially healthy subsidiary and to burden it with liabilities during times of financial stress. The weak parent might also have an economic incentive to file the subsidiary into bankruptcy if the parent itself were forced into bankruptcy, regardless of the subsidiary's stand-alone strength.

Ring-fencing may allow for an exception to this rule. In appropriate circumstances, a package of enhancements, including legal and structural inhibitors to a filing of the subsidiary by the parent and provision of so-called "nonpetition" language by the parent, along with other considerations such as regulatory insulation, may allow a subsidiary's rating to be elevated over the credit quality of the consolidated entity (assuming the stand-alone rating of the subsidiary merits the same). Typically, Standard & Poor's will not rate even ring-fenced subsidiaries more than three "notches" above the credit quality of the consolidated entity. However, in the case of Enron and PGE, the establishment of powerful financial disincentives for Enron and its creditors to file PGE into bankruptcy enabled a much greater ratings separation.

Legal and Structural Mechanisms

In addition to providing a "nonconsolidation" legal opinion (to the effect that a bankruptcy court would not consolidate PGE with Enron), PGE has established a special class of junior preferred stock (or "golden share") that requires the vote of the junior preferred holder before PGE could voluntarily file for bankruptcy. The stock is held by an entity that is independent of PGE and its affiliates. On Sept. 30, 2002, the junior preferred stock was issued to Global Securitization Services LLC, a limited liability company specializing in the ownership and administration of special-purpose vehicles established in connection with structured finance transactions.

In Standard & Poor's judgment, the issuance of the junior preferred stock is a useful mitigatant to the risk of a voluntary bankruptcy filing. The requirement that the holder of the golden share consider the interest of creditors may also weigh in favor of the conclusion that PGE should not easily be voluntarily filed into bankruptcy for the benefit of Enron's creditors and in a manner detrimental to PGE's bondholders.

Regulatory Insulation

Further supporting the ratings separation is the fact that Standard & Poor's views the Oregon Public Utilities Commission (OPUC) as being among the most supportive of utility credit quality in the country. Indicative of this support are the several restrictive conditions imposed on Enron when Enron acquired PGE in 1997 that served to largely insulate PGE from Enron's subsequent woes. Among the important restrictions were the maintenance of a 48% equity level at

PGE and advance notification of special or large dividends to Enron. In addition, PGE is required to maintain its own accounting system, separate from Enron's.

The effectiveness of OPUC's rules can be gauged from the fact that Transwestern Pipeline and Northern Natural Gas, FERC-regulated gas pipelines that are both Enron subsidiaries, pledged their assets as collateral for loans in November 2001, and then passed the funds to Enron through promissory notes just weeks before Enron's collapse. Transwestern's $550 million worth of loans to Enron has been written off by the pipeline and Northern Natural is still liable for $450 million. Although the merits of these transactions are currently under litigation, Enron was unable to similarly borrow money from PGE, illustrating the effectiveness of regulatory insulation.

Economic Disincentives

PGE's corporate credit rating is significantly higher than would be expected from the ring-fencing criteria because of the perceived economic disincentives for Enron or its creditors to file PGE into bankruptcy. In Standard & Poor's view, PGE's value as a going concern is greater than if it were part of a consolidated bankruptcy filing. Standard & Poor's has concluded that if an otherwise healthy PGE were filed into bankruptcy, the adverse financial and contractual consequences of such a filing would outweigh any advantages. A bankruptcy filing by PGE would likely result in defaults under PGE's portfolio of power purchase and sale agreements. Standard & Poor's has been advised that the nature of these agreements is such that a default would trigger termination payments by the company for net out-of-the-money positions. A downgrade of ratings to below investment-grade status could require the company to post additional collateral. Standard & Poor's further understands that these contracts constitute "safe-harbor" contracts for purposes of sections 556 and 560 of the bankruptcy code and that the defaults would not be affected by the "automatic stay" provision of the federal bankruptcy code. Standard & Poor's believes that the financial penalty that would be suffered by PGE in the event of a downgrade to noninvestment-grade status, or, a priori, a PGE bankruptcy, is a material disincentive for Enron's creditors to file PGE.

Currently, if Standard & Poor's cut PGE's ratings to below investment grade, counterparties have the right to demand about $117 million in collateral. In addition, counterparties could demand upfront cash payments for all purchases by PGE of its gas and power requirements. These requirements are substantial because PGE is short on generation capacity.

Where Does PGE Go From Here?

PGE is currently rated 'BBB+' with a developing outlook. The ring-fencing mechanisms implemented thus far are sufficient, in Standard & Poor's opinion, to insulate PGE's credit quality from that of Enron. Still, as the developing outlook indicates, there is uncertainty about where PGE's rating will ultimately go. This will depend on PGE's prospective buyer or on the nature of the company that eventually emerges from the Enron bankruptcy if PGE is not sold to a third party. ■

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OE 113300

Ratings on Cogentrix Energy Are Lowered to 'BB'

On Jan. 14, Standard & Poor's Ratings Services lowered its corporate credit ratings on Cogentrix Energy Inc. to 'BB' from 'BB+', following the recent credit deterioration of National Energy Group (NEG) and Dynegy Inc. (B/Watch Neg/—) and the significant investment associated with gas turbines for a project that was never undertaken. The ratings remain on CreditWatch with negative implications.

The credit deterioration of NEG and Dynegy had a significant effect on Cogentrix's offtaker credit profile.

Cogentrix has three 810 MW gas-fired combined-cycle projects selling to NEG and Dynegy under long-term tolling agreements. Even though Dynegy is current with its payments and plants selling to NEG are still under construction, Standard & Poor's expects these projects to dividend minimal cash flow to Cogentrix.

The credit rating remains on CreditWatch with negative implications because of the need to renew a $250 million corporate revolver by October of 2003 in a challenging environment. A downgrade is likely if the negotiation proves to be more challenging than expected or the renewal terms are onerous enough to warrant a lower rating. Failure to complete the sell-down of a project to generate $60 million could also place downward pressure on the rating.

Cogentrix had purchased $185 million of turbines and heat recovery steam generator equipment for a project in Indiana. However, the downturn in the U.S. power industry led to the project's abandonment. Cogentrix is actively trying to place the equipment in a new project. If Cogentrix is unsuccessful, it may attempt to sell the equipment in the secondary market.

These negative developments lowered Cogentrix's cash flow to parent interest coverage down to between 2x and 2.5x. Before these negative developments, Cogentrix had consistently generated an above-3x cash flow to parent interest coverage.

The company had December 2002 cash on hand of about $37 million and is expected to generate $88 million of operating cash flow in 2003 without assuming any asset sales. Except for $30 million of installment payments for the turbines, all of its foreseeable capital expenditure and investment commitments have been financed.

Debt maturities include a $20 million bond principal due in March and a $250 million corporate revolver due in October. Cogentrix should have adequate cash on hand to pay the bonds, but given the worsened financials, renewing the corporate revolver may require arduous negotiations and the terms of the renewal may be more onerous. Nevertheless, the banks are likely to renew the revolver because Cogentrix has many projects outside of the NEG and Dynegy projects that are performing well and should continue to generate stable, long-term contractual cash flow. ■

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Vectren's, Units' Outlooks Are Revised to Negative

On Jan. 8, Standard & Poor's Ratings Services affirmed its ratings on energy holding company Vectren Corp. and its subsidiaries, and revised the outlooks to negative from stable.

As of Sept. 30, 2002, Evansville, Ind.-based Vectren had $1.3 billion of debt outstanding.

Despite an improving trend in 2002, Vectren will need to demonstrate further financial improvement to maintain current ratings.

The ratings for Vectren reflect a consolidated rating methodology that is based on the credit strength of the entire Vectren family of companies, which consists of regulated electric and gas operations and unregulated activities.

Vectren's strengths include favorable electric regulation, with a cash recovery on environmental expenditures, diversity of electric and gas operations, and low electric production costs. Weaknesses include lack of a weather normalization mechanism for gas revenues, a somewhat slowing economy with industrial customer concentration, and high debt leverage.

The negative outlook reflects the need for financial improvement to achieve ratios more commensurate with current ratings, given an average business risk profile. Given the level of capital expenditures planned, Vectren will require external funding over the next several years. To maintain its current rating, the company, at a minimum, will need to issue a combination of common equity and debt. Continued earnings improvement would also be required to support the rating. ■

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MDU Resources Rating Is Lowered to 'A-'; Subsidiary Rated 'A-'

On Jan. 8, Standard & Poor's Ratings Services lowered the corporate credit rating on energy company MDU Resources Group Inc. to 'A-'

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OE 113301