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DAVID F. WHITE

July 31, 2008

Oregon Public Utility Commission
Attn: Filing Center
550 Capitol St. NE, Suite 215
P. O. Box 2148
Salem, Oregon 97308-2148

Re: *DR 10, UE 88 and UM 989*

Dear Clerk:

Pursuant to the Administrative Law Judges' ruling at the hearing on July 10, 2008, enclosed are the attachments to URP Exhibit 603 for inclusion in the record.

Sincerely,

A handwritten signature in black ink that reads 'D. F. White'.

David F. White

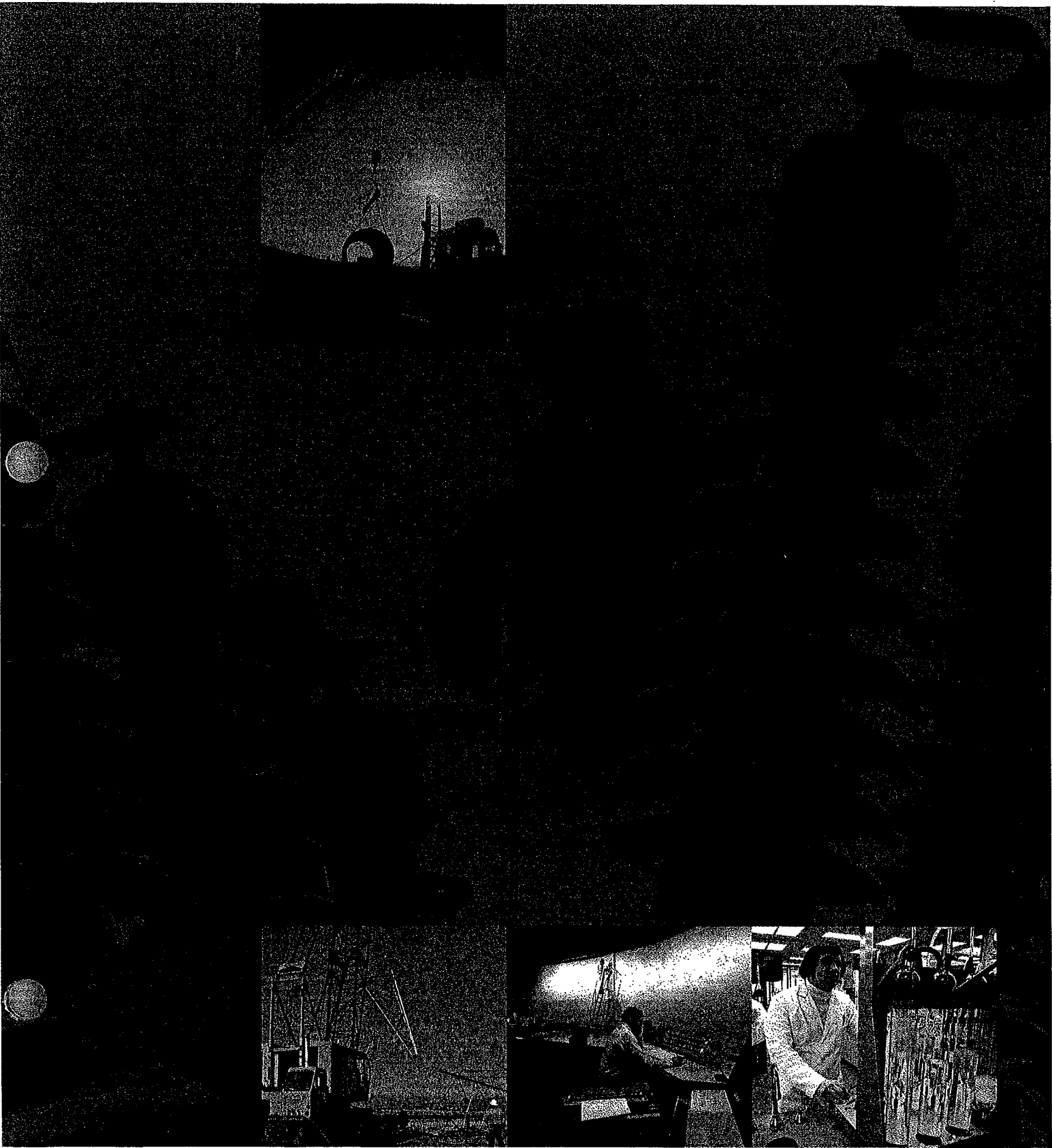
DFW/ldh

Enclosure

cc (w/encs): DR 10, UE 88 and UM 989 Service Lists

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GROWING
WITH THE REGION
WE SERVE



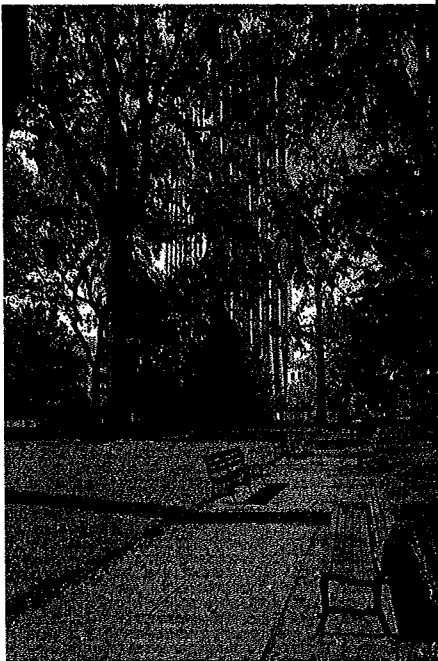
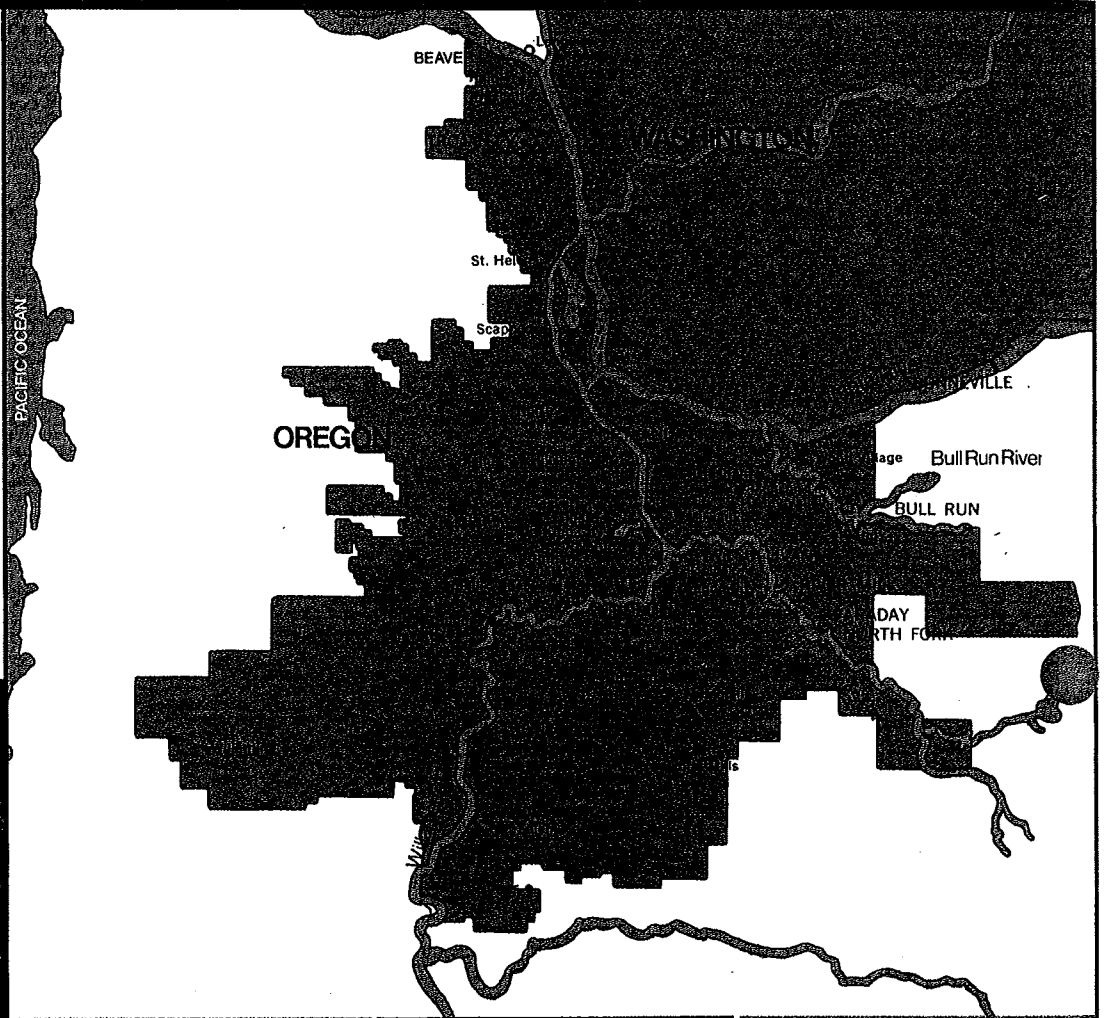
"Go west young man, go west, and grow with the country."

Horace Greeley

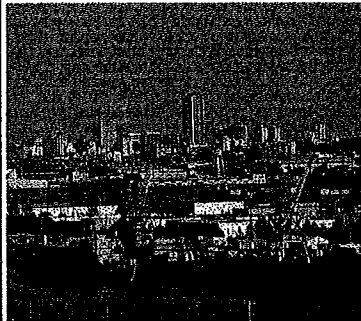
It was more than 125 years ago that Horace Greeley repeated this advice. People and businesses have never stopped listening. They just keep coming to beautiful, bustling Oregon where the market is growing and living is fun.

And PGE is right in the heart of it — serving the electrical needs of 54 incorporated cities and 40 percent of the State's total population in a compact 3,350 square-mile area.

Since 1889 we have been steadily growing with the region we serve. We stand ready and able to continue meeting the challenges ahead.



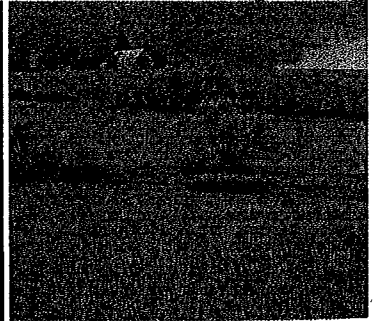
Oregon is known for its liveability with spacious parks even in downtown areas. In the background is the headquarters for the First National Bank of Oregon.



Port of Portland, a leading West Coast shipping center, is home for the largest dry dock on the West Coast.



PGE serves a growing area of over one million people. The city of Portland, shown above, is the largest industrial, commercial and cultural center of the state.



Dairy products, flower bulbs, fruits, nuts, vegetables and nursery products are grown on the rich agricultural land of Oregon's Willamette Valley.

HIGHLIGHTS

	1979	1978	% Increase (Decrease)
Operating revenues	\$ 349,981,000	\$ 303,678,000	15.2
Income before cumulative effect of change in accounting policy	\$ 46,122,000	\$ 48,784,000	(5.5)
Net income	\$ 46,122,000	\$ 56,629,000	(18.6)
Income available for common stock	\$ 32,292,000	\$ 42,454,000	(23.9)
Earnings per average common share —			
Before cumulative effect of change in accounting policy	\$1.06	\$1.40	(24.3)
Cumulative effect to January 1, 1978 of accruing estimated unbilled revenues — net	—	.32	—
Earnings per average common share	\$1.06	\$1.72	(38.4)
Dividends paid per common share	\$1.70	\$1.70	—
Net utility plant	\$1,658,797,000	\$1,482,862,000	11.9
Gross utility construction expenditures	\$ 254,289,000	\$ 278,265,000	(8.6)
Kilowatt-hours sold (in thousands) to ultimate customers	13,139,000	12,132,000	8.3
Customers served at year end	478,971	460,698	4.0
Average kilowatt-hour use per residential customer	13,814	13,459	2.6

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Notice of Annual Meeting

The annual meeting of stockholders will be held at the Portland General Electric Company Service Center, 3700 S.E. 17th Avenue, Portland, Oregon, May 14, 1980, at 2:00 p.m.

HIGHLIGHTS 1979

To our shareholders:

1979

was a year of continued growth for your Company: More customers. New industry. Construction progress and a favorable rate decision in January 1980. The year also had problems: Ice storm and poor hydro conditions. Three Mile Island. A Trojan shutdown. Higher costs and lower earnings. Through it all, however, we met our responsibilities to our investors and customers.

It is not a year we would like to repeat, but the good indeed outweighed the bad and gives us every reason to believe the Company will continue to grow and provide improved earnings in the years ahead.

January 1979 was a forewarning of things to come when a severe ice storm gripped the Portland area, causing service disruption to 125,000 customers. In spite of extreme cold and difficult working conditions, PGE employees, with help from other utilities, restored electrical service within a few days. The cost of restoration and system damage was approximately \$4 million, offset by \$2.5 million of insurance recoveries.

Two events caused even greater difficulty in 1979: (1) an unusually dry spring which left regional reservoirs well below normal in the fall months, and (2) a mid-October through December shut-

down of the Trojan nuclear plant, at a time when energy requirements were increasing. The combined effect put the Company close to being unable to meet all its load demands by the end of December.

Trojan was shut down in October for a planned two weeks for repair work on the steam generators. During this shutdown inspections revealed seismic design deficiencies in some walls holding pipe supports. The Company did not restart the plant until modifications to walls and supports were completed and approved by the Nuclear Regulatory Commission. This required over two months of around-the-clock work. The plant returned to service on December 31, 1979.

With low hydro conditions and Trojan off line, we operated our three combustion turbine plants and had to purchase and borrow power from other utilities. As the weather became colder and loads increased, power became increasingly expensive. At times, excess power costs exceeded \$700,000 per day. For the period of August through year-end, the Company incurred excess power costs of approximately \$60 million.

In November, after public hearings, the Public Utility Commis-

sioner of Oregon approved the Company's request for a power cost adjustment allowing PGE to recover in rates, up to 80 percent of the costs for unanticipated increases in the prices of eligible fuels and purchased power. The excess costs incurred prior to the Commissioner's action were not covered; however, we were able to recover \$15 million. The power cost adjustment is a permanent tariff and as such represents significant progress in 1979 and an improved regulatory climate for investor-owned utilities in Oregon. The Company originally filed for a power cost adjustment in its general rate case filed in 1978, but it was rejected at that time.

Unrecovered power costs plus unanticipated changes in operating costs and conditions contributed to lower earnings per average common share of \$1.06 in 1979, as compared to \$1.72 in 1978. Operating revenues in 1979 were \$46 million over 1978 but did not offset increased expenses.

To improve its earnings, PGE filed for a rate increase in June 1979. The decision rendered in January 1980 is one reason for our optimism about the 1980's because it gives PGE an opportunity for improved performance by providing for:

- An increased authorized allowed return on common equity to 15.17 percent from 13.84 percent.
- An increased allowed rate of return on rate base to 11.15 percent from 10.53 percent.
- An additional rate increase effective in July 1980 to recover costs associated with Bonneville Power Administration's recent rate increase which went into effect December 20, 1979.
- An additional rate increase later in 1980 when the Boardman coal plant becomes operational.

While demonstrating awareness on the part of the Commissioner that any investor-owned electric utility is a riskier business than in the past, the rate decision does not entirely alleviate our financial

REPORT TO OUR SHAREHOLDERS

difficulties. The decision does give us an improved opportunity to operate and manage the Company in a planned, cost-conscious, effective manner.

In 1979, Portland General Electric added 18,273 new customers, and energy sales to retail customers totaled more than 13 billion kilowatt hours. PGE's service territory continued to increase in population and diversity with the location of major electronic firms in the area and construction of a number of new high-rise office buildings.

The difficulties of the last several years have demonstrated that the economic characteristics of the utility industry have changed from the 1950's and 1960's when costs were relatively stable, rates to consumers were declining and returns to investors were consistently satisfactory. In the current inflationary environment, sustaining investor returns while providing the necessary and expensive resources adequate to serve growing demands is possible only if regulation is anticipatory and accurate. We therefore recognize that to meet our responsibility to investors and customers, PGE must impose financial as well as service objectives on resource and corporate strategies. Improved load forecasting, generation planning and budget controls are essential. We are implementing those improvements now.

Construction of the coal-fired power plant near Boardman, Oregon has tracked well with both schedule and budget. The 530-megawatt plant, 80 percent of which is owned by PGE, is projected to be in commercial operation in August 1980. Currently, we are stockpiling coal transported by rail from Wyoming.

The Company owns 20 percent of each of the 700-megawatt units #3 and #4 at the coal-fired Colstrip project in eastern Montana. Necessary approvals from state and Federal agencies were received in 1979 and the units are now under construction. Completion of both units is presently scheduled for 1984.

Progress in nuclear construction remains slow. There are delays

and cost increases being experienced in the construction of the Washington Public Power Supply System (WPPSS) nuclear unit #3 of which we own 10 percent. Construction has not started as planned on the Skagit nuclear project sponsored by Puget Sound Power & Light Company with PGE as a 30 percent owner, and appears to be delayed another two years or more. Finally, PGE has rescheduled completion of the first unit of the Pebble Springs nuclear project until sometime early in the 1990's. Two years ago we felt the unit could be operating by 1987, but that is unrealistic in today's environment.

The accident at Three Mile Island in the spring of 1979 had a significant impact on the nuclear industry. This accident, combined with continuing licensing delays caused us to reevaluate PGE's resource strategy. The electric power industry must take these nuclear operational and safety concerns seriously, recognizing that any energy resource must have public support to meet both service and financial objectives. Although we believe nuclear power will play an important part in meeting the future energy needs of Oregon and the nation, we, like many other utilities in the nation, foresee substantial delays in the licensing of planned nuclear plants in the region.

With the addition of the Boardman unit in 1980 the Company should have adequate energy supplies until about 1985. However, with the rescheduling of previously planned nuclear generating additions, PGE must turn to other resources to meet the needs of customers in our service area beyond 1985.

To meet the requirements of our customers after 1985, we are considering new generating facilities including an additional coal unit at the Boardman site and participation in a coal plant to be sponsored by The Washington Water Power Company. Additional hydroelectric projects at Bull Run, the Pelton regulating dam and Willamette Falls are future possibilities. Increased

emphasis will be placed also on those load management and conservation programs which promise to be less costly than building new generating facilities. In addition, the northwest utilities are discussing ways to coordinate the timing and construction of generating plants.

We fully recognize there are those who would obstruct all new energy development and will turn their efforts toward this end. Environmental and regulatory delays are also associated with the mining and burning of coal, and there is an obvious need for expansion of existing national transportation systems. Coal expansion will not be without problems, but it must be achieved.

The Northwest Regional Energy Bill passed the Senate in September 1979 and is now before the House. This legislation would enable the residential and rural customers of investor-owned utilities to share in the low cost power marketed by the Bonneville Power Administration as well as establish other mechanisms for efficient use of energy resources in the Northwest. Passage would

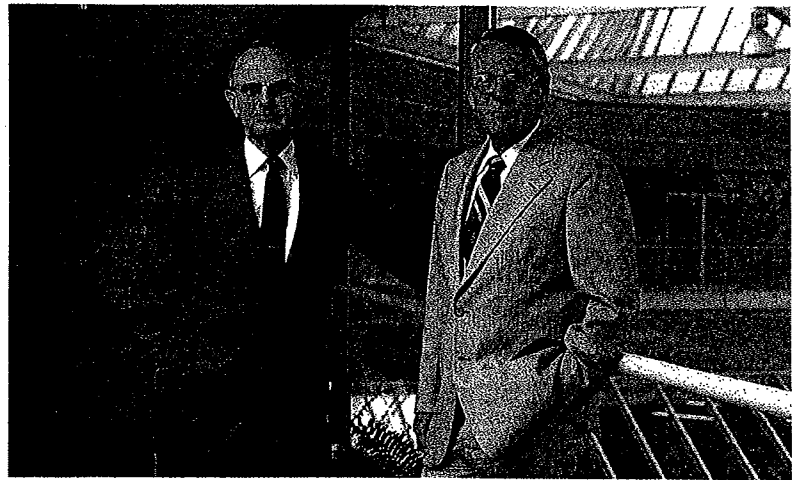
enable our residential and rural customers to save up to 15 percent on power costs.

It is with regret that we inform you that Vice President and Secretary, H. H. Phillips, passed away in August. Mr. Phillips joined the Company in 1970, having previously served us as a partner in a private law firm. He served the Company well.

We have confidence that the 2,800 people who are your company will do what needs doing. They are our most valuable resource in providing the reliable service, assistance, and community involvement from which our customers benefit. It has not been easy during this period of rapid growth, inflation and turbulence, but they have steadfastly met the challenges.

As you read the balance of this report and review our existing plant and firm power resources, our construction progress, the favorable rate relief, and our plans for the future, we believe you will share our confidence for the 80's.

We appreciate your continued support and trust.



Frank M. Warren Robert H. Short

Frank M. Warren
Chairman of the Board
and Chief Executive Officer

Robert H. Short
President

March 1980

OREGON—a healthy, vital and diversified market which keeps going and growing. Serving more than one million people, Portland General Electric Company is the state's largest supplier of electricity. Customer growth has exceeded 43 percent in the last decade. Oregon's retail sales hit an estimated \$8.5 billion in 1979 and median family income was \$18,000. Our market profile is good.

Population up 22 percent in last decade. The entire Pacific Coast region experienced excellent growth in the 70's, and in the majority of those years Oregon's percentage of population growth has been the highest of any state bordering the Pacific. Population is up 22 percent; ranking 29th in state size with its 2.5 million residents. Out-of-state visitors spent an estimated \$980 million in 1979, and history demonstrates that many of them will return to live here. Migration assures market growth.

Employment continues to rise—industries varied. Oregon's growing economy is not captive of one or two industries. Non-agricultural jobs increased from 709,000 in 1970 to 1,051,000 in 1979—a gain of 48 percent. Manufacturing employment rose

from its 1970 level of 172,000 to 227,000 in 1979—or 32 percent. And in the Portland metropolitan area, where most of PGE's customers are located, manufacturing employment climbed 6.3 percent between 1978 and 1979; non-manufacturing jobs were up 2.6 percent.

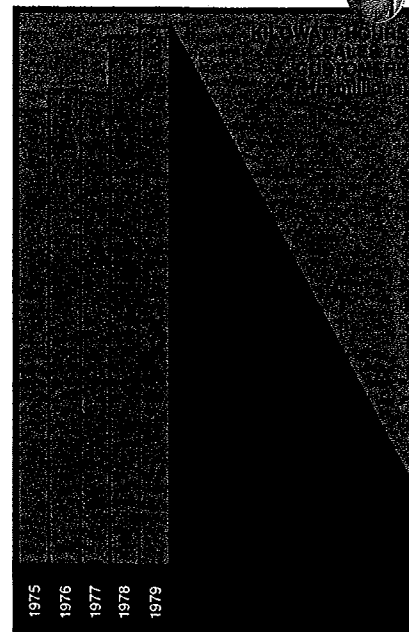
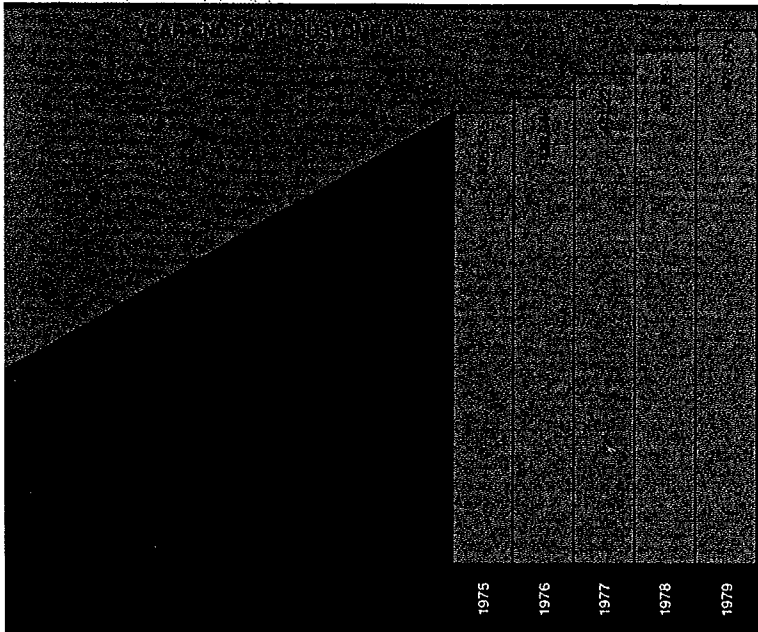
Diversity is the watchword. Lumber, pulp and paper, and wood products lead the list with 40 percent of the manufacturing employment. Food and kindred products account for 13 percent, while instruments and electronics is a rapidly growing area with 16 percent. The balance is spread over a wide range of industries. Of course agriculture still is an Oregon mainstay, and the Port of Portland is the gateway to the Pacific Rim area and is the largest export port on the West Coast.

17,458 new residential customers connected—68 percent choose electric heat. New housing continued at a healthy pace with the 17,458 new connects in 1979 representing the fourth largest addition in corporate history. This is down 10 percent from 1978 which was the second highest year experienced. New customers continue to demonstrate their preference for electricity, with 68 percent of the 1979 residential additions selecting electric heat and 70 percent electric water heating.

However, as electrical energy supply concerns mount and natural gas supplies increase in the region, there is a noticeable trend in new construction toward gas space heating and water heating, despite its increasing cost. In view of the 1979 supply problems the Company did not discourage that, and the Public Utility Commissioner of Oregon has scheduled a generic public hearing later in 1980 for consideration of the desirability of banning new residential electric heat installations or imposing a special hookup charge. We do not believe a ban would be in the best interests of the public; however, a hookup charge which more clearly reflected the cost to service new residential heat load might be determined appropriate.

Load demands up 8.3 percent over previous year. As of December 31, PGE served 478,971 customers. Of the total, 423,389 were residential and 55,582 were commercial-industrial and other non-residential. Total 1979 electrical use by ultimate customers increased to over 13 billion kilowatt hours, or an 8.3 percent increase over 1978. This substantially exceeds the average load growth rate of 3 percent which has been experienced on the system since 1973. Strikes and a sluggish economy slowed the growth rate in 1978, thus accounting for this sizeable 1979 "recovery year" increase. While there may be some continued above-normal growth in the next two years, the average rate between 1980 and 2000 is forecast to be about 3.7 percent. Thus even with the lower growth rates we expect consumption by present and future customers to double the demand on our system by the year 2000.

Growing... to serve Tektronix, Inc., Oregon's largest employer with over 15,000 personnel in the state. Working with TEK is Paul Jensen, Manager of Customer Field Services—Western Division. TEK products are used in the science, industry and educational fields for testing, manufacture, design and research. Their world-wide reputation began with cathode-ray oscilloscopes, which continue to be a major product.



GROWTH

Higher power costs decrease net income.

The Company's net income declined from \$57 million in 1978 to \$46 million in 1979, a decrease of 19 percent. Earnings per common share fell from \$1.72 to \$1.06. Total operating revenues were \$350 million in 1979, an increase of \$46 million, or 15 percent over 1978. The increase was attributable primarily to an 11.6 percent rate increase granted in January 1979 and in part to an increase in kilowatt hour sales. In addition, allowance for funds used during construction (ADC) increased sharply as a result of higher interest rates and construction levels.

The above increases in revenues and ADC were more than offset by the Company's inability to recover rapidly escalating power costs. The combination of poor hydro conditions beginning in August and the outage of the Trojan nuclear plant from mid-October until December 31, to-

gether with higher costs of fossil fuels and purchased power, resulted in excess power costs of approximately \$60 million. Of this amount, \$15 million was recovered under a permanent power cost adjustment tariff granted by the Public Utility Commissioner effective November 15, 1979. Although this tariff will enable the Company to recover a significant portion of excess power costs in the future, it does not apply to costs incurred prior to that date.

Dividend policy maintained.

The Company's Board of Directors and management recognize the importance dividends play in the stockholders' investment decisions. Your Board of Directors intends to maintain a sound and forward-looking dividend policy. This is borne out by the fact the dividend has been maintained during the last three years of adversity.

During 1979, the Company paid

dividends to common and preferred stockholders of \$50.8 million and \$13.9 million. On February 6, 1980, the Board of Directors declared a quarterly common stock dividend of 42½ cents per share payable April 15, 1980. This is an indicated annual dividend of \$1.70 per share. Stockholders have been notified that 100 percent of the 1979 common stock and preferred stock dividend payments represent a return of capital and are

non-taxable as dividend income for Federal income tax purposes. These figures are subject to final determination by the Internal Revenue Service. Shareholders who have questions concerning this matter should contact their tax advisor.

Dividend reinvestment plan participation continues to grow.

Participation in the Dividend Reinvestment and Common Stock Purchase Plan continued to increase this year. As of December 31, 1979 approximately 14,000 shareholders participated in the plan. They invested \$7.2 million during 1979—an increase of 57 percent over 1978.

Through the plan, common and preferred stockholders of record have the opportunity to automatically reinvest their dividends for additional stock purchases. The plan also allows shareholders to invest up to \$5,000 cash per calendar quarter for direct purchases of additional shares of common stock. Participants incur no commission or other charges since the shares are purchased directly from the Company.

Enrollment in the plan will be accepted at any time. Shareholders wishing further information should contact the plan agent, U.S. National Bank of Oregon, P.O. Box 3850, Portland, OR 97208, (503) 225-6474.

WHERE OUR DOLLAR CAME FROM

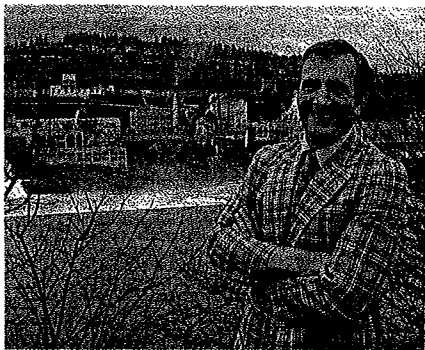
1	Residential	45.5%
2	Commercial	27.6%
3	Industrial	20.8%
4	Other	6.1%

WHERE OUR DOLLAR WENT

1	Purchased Power and Production Expenses	41.3%
2	Interest and Preferred Dividends	27.0%
3	Taxes	10.4%
4	Depreciation	9.6%
5	Other Expenses	2.5%
6	Income Available for Common Stock	9.2%

FINANCIAL REVIEW

Growing... to serve Crown Zellerbach behind PGE's Mark Deller, Customer Field Services Representative, Oregon City Division. Crown Z's West Linn plant makes coated groundwood publication paper and has a strong national market position in pulp and paper products.



86 percent of our residential customers have taken conservation actions.

On page 4, in our discussion of growth in the service area, we stated that the 1979 use of electricity on our system was up 8.3 percent over 1978. It is important to note that the Company's conservation programs assisted in holding the total residential increase to a 6.8 percent level despite the high percentage of new electric heat installations.

New firms moving into the service area and growth of existing business and industry accounted for an increase in use of 9.5 percent. Many of these commercial customers are, or will be receiving additional conservation and load management attention in 1980.

Past customer studies indicated that approximately 86 percent of our residential customers have undertaken one or more conservation actions in their homes; the most effective being turning down thermostats on heating and water heating units and the addition of insulation, weatherstripping, and storm windows.

Since August 1972 the Company has provided customers more than one million pieces of conservation information. Much of this material is specifically designed for do-it-yourselfers.

Opinion surveys have indicated that four out of five customers say PGE conservation information is helpful, and nearly 70 percent believe additional suggestions and reminders will also be valuable. We shall continue to help.

Company weatherization plan is expanded. Oregon is a leader in encouraging residential energy conservation. The innovative no-interest, deferred payment weatherization programs for single family residences heating electrically, which were introduced in 1978 by the Company and Pacific Power & Light Company have received nationwide attention.

Since the programs were instituted in 1978, PGE has made 14,684 home energy inspections. The Company has approximately 187,400 electric heat customers and by the end of February 1980 they were all contacted in writing and offered free home audits. The Company has had up to 24 inspectors making the audits. Under this program additional weatherization has been added by 5,370 customers as of February 1980. These investments in weatherization are permitted in the rate base.

The Company also expanded its weatherization program in 1979 to permit participation by electric heating customers in multiple-family dwellings, condominiums, mobile homes in parks, and houseboats. Do-it-yourselfers are also now qualified to participate.

The Company's no-interest, deferred payment program permits weatherization work by owners of electrically heated residences to be done now and payment for the work to be made when the dwelling title is transferred or when electric service is terminated.

Schools and businesses receive extra conservation attention.

An aggressive effort to encourage conservation in the commercial, industrial and educational sectors is underway. Company Energy Management Consultants have made energy audits of schools and businesses and offered conservation advice.

Assistance in educational programs for schools, involving students, parents and teachers, is also being undertaken. Workshops, special "parents energy conservation nights," class programs and informational materials are being offered.

In his current rate order, Public Utility Commissioner John Lobdell stated: "This company has made major expenditures to place energy information before its customers. In the last half of 1979, most of those efforts related to advising customers of the need for energy conservation, and how to effect conservation. Most of PGE's newspaper, radio and television advertising represents, in my view, a significant contribution toward helping consumers make informed energy decisions. I commend those efforts."



In the past two years, PGE weatherization inspectors have completed nearly 14,700 home energy audits to encourage conservation.

CONSERVATION

Pebble Springs nuclear project rescheduled.

After more than 7 years of federal and state hearings, the Company has rescheduled the construction completion of our 1260-megawatt nuclear units at Pebble Springs until an early 1990's time frame.

The long-delayed Pebble Springs construction and licensing was further delayed by the accident at Three Mile Island in Pennsylvania. In effect, until March 1980, the Nuclear Regulatory Commission (NRC) had placed a virtual moratorium on the issuance of construction permits as a result of Three Mile Island, and the Oregon legislature placed a moratorium on licensing until November 1980.

Intervention by environmental and anti-nuclear activists in both state and federal proceedings has added further expense and protracted delays to the project.

The Pebble Springs project currently represents an investment of more than \$200 million, with \$113 million being PGE's 47.1 percent share. While seeking licensing approvals in 1979, the Company has reduced expenditures on the project to minimum levels and will maintain minimal levels to keep various licensing proceedings in progress.

Skagit nuclear plant also delayed. The uncertain regulatory process at national, state, and county levels and an unfavorable socio-political atmosphere has resulted in a 2 to 3 year deferral of two nuclear plants planned at Sedro Woolley, Washington.

The Company has a 30 percent interest in both of the 1288-



PGE is a 10 percent partner in the Washington Public Power Supply System's 1240-megawatt nuclear plant being built near Montesano, Washington.

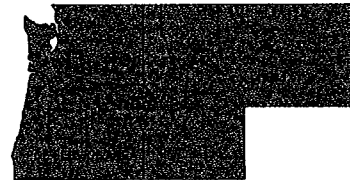
megawatt units. The Company's current investment is \$90 million. The project is being sponsored by Puget Sound Power & Light Company, which has indicated that it intends to continue site evaluation and licensing proceedings but that expenditures will be reduced to minimum levels.

WPPSS #3 power plant construction proceeding. A nuclear plant that has remained relatively unscathed from inter-venor problems but is experiencing further delays and large cost overruns, the Washington Public Power Supply System's (WPPSS) 1240-megawatt #3 plant being built near Montesano, Washington, continues under construction. Management changes and improved cost control procedures have been implemented by WPPSS.

PGE is a 10 percent partner in the project which is scheduled for completion in 1985. At 1979 year-

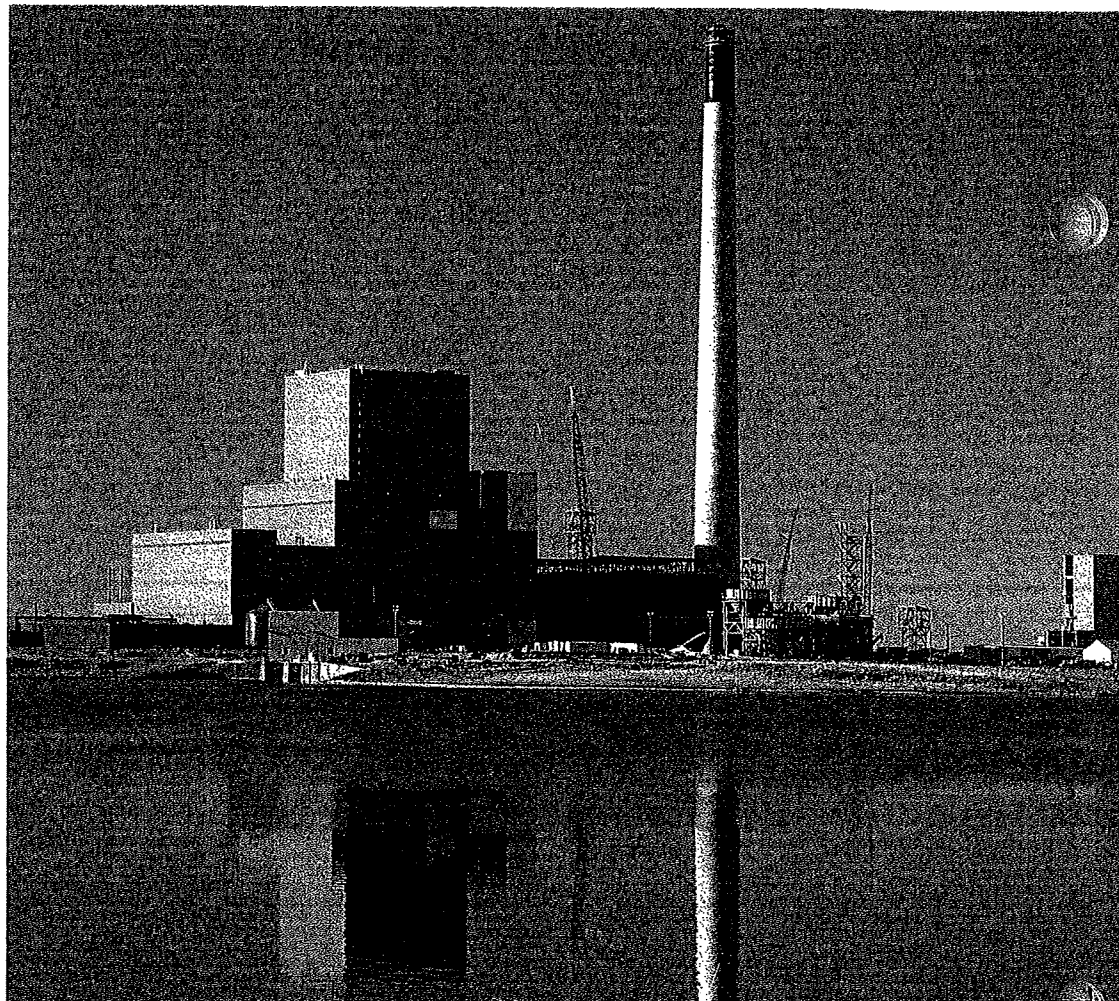
UNITS UNDER CONSTRUCTION OR PLANNED	LOCATION	NET CAPABILITY MEGAWATTS	% OF COMPANY'S INTEREST	FUEL	COMPANY COST TO 12/31/79 (000's)	EARLIEST DATE OF OPERATION (A)
Boardman	Boardman, Oregon	530	80	Coal	\$336,056	1980
Colstrip 3rd unit 4th unit	Colstrip, Montana	700 700	20 20	Coal Coal	30,164	1984
WPPSS No. 3	Montesano, Washington	1240	10	Nuclear	49,346	1985
Skagit 1st unit 2nd unit	Sedro Woolley, Washington	1288 1288	30 30	Nuclear Nuclear	89,724	early 1990's
Pebble Springs 1st unit 2nd unit	Arlington, Oregon	1260 1260	47.1 47.1	Nuclear Nuclear	113,380	early 1990's

(A) Dates of operation, construction costs, and joint ownership arrangements are subject to continuing review and alteration due to changing conditions.



CONSTRUCTION

Growing... to serve Precision Castparts, known in the investment casting business as the "big castings" company. According to Mike Porter, a PGE Branch Manager, the Company is a major supplier to the aerospace industry with its castings for jet engines. PCC is building an additional 170,000 sq. ft. production facility for operation in mid-1980, to help handle its orders backlog.



end, the plant was 19 percent complete and PGE's investment amounted to \$49 million. WPPSS has five nuclear units under construction which will add 6000 megawatts to the region's power supply.

Boardman coal plant continues on schedule toward August '80 start-up. More than 85 percent of the construction work on PGE's 530-megawatt Boardman coal plant was completed at year-end. PGE's investment in the plant was \$336 million at that time.

The plant's coal-handling system is now in operation. On January 5, 1980 the first load of coal arrived at the plant site from mines near Gillette, Wyoming. The Company has two 100-car unit trains hauling coal over the 1,200-mile route.

Construction force reached peak strength in January 1980 with some 1,700 workers on the job. The work force will decrease as the plant gets closer to its summer completion. Operating staff will number about 125.

The plant is not only on schedule but within budget in spite of higher than anticipated interest rates and rising equipment costs. This is a rare accomplishment today in the power generation field and speaks well for the people involved in the project.

PGE's partners in the project are Idaho Power Company and Pacific Northwest Generating Company; each with 10 percent shares.

Colstrip coal plant construction underway. The Montana Colstrip units #3 and #4 project, of which PGE is 20

percent owner, was 8 percent complete at year-end. The Company's investment in Colstrip is \$30 million.

Construction resumed in September following receipt of approvals from state and federal agencies. There had been extended hearings and appeals in connection with The Montana Power Company's efforts to obtain necessary permits. By the end of 1980 the project should be 25 percent complete. During the coming year we expect to reduce our participation to 18.6 percent ownership so that cooperatives in the Mountain States can share in the project.

The two 700-megawatt coal-fired units are located next to the existing units 1 and 2 of the Colstrip generating plant and surface mine in southeastern Montana. Unit 3 is slated for commercial

operation in early 1984 and Unit 4 later in that year.

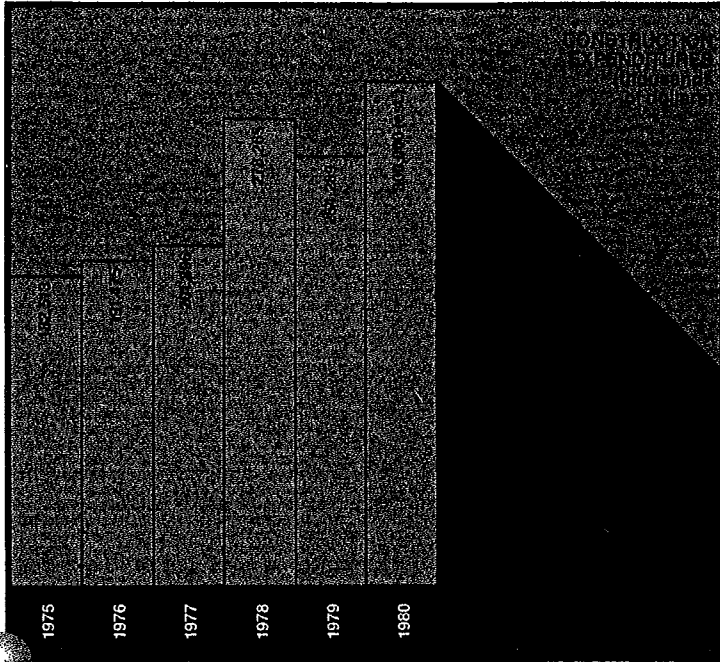
Trojan resumes operation after repairs completed.

Upon completion of repairs and modifications to the steam generator tubes and the piping system supports and walls, the Trojan plant returned to service on December 31, 1979. The outage extended over an 80 day period.

Prior to the resumption of plant operations, an NRC Atomic Safety and Licensing Board (ASLB) required hearings and an extensive review of the corrective measures made by the Company. The review was conducted and operation approved by the NRC staff.

The ASLB also has scheduled hearings in April 1980 to review proposed modification of the control building to meet earthquake

CONSTRUCTION



Residential growth continued at a healthy pace in 1979. The majority of the new housing developments feature underground electrical service.

standards. This is the matter which underwent several hearings in 1978. The Nuclear Regulatory Commission then determined the plant was safe for interim operation and issued a license amendment permitting full plant operation during implementation of plant modifications. In January 1979 the Company submitted a report of proposed modification design to the NRC staff. Additional studies and plan modifications have continued throughout the year. We believe that when approved the control building modifications can be made without serious interruption of service. It is estimated the work will take about a year to complete. The \$32.5 million damage suit against the Bechtel Corporation, designers of the plant, for these deficiencies is proceeding in due course.



Customer Field Service Engineer Steve Anderson discusses the old water wheel at Salem's Mission Mill with museum curator Anthony Reid. This is a co-generation project, which produces 30 kilowatts of electricity. PGE buys such excess power when available.

Growing... to serve Wacker Siltronic Corp., a new member of Oregon's growing electronics manufacturing industry. PGE's Dave Elliott, Commercial-Industrial Engineer in Central Division, is working with Wacker as it builds a \$60 million facility for the production of hyper pure silicon single crystals and polished wafers. These products are used in the manufacture of semi-conductor components for computers, television sets and calculators.



Poor hydro contributes to threat of mandatory curtailment.

With the majority of the Pacific Northwest's power supply presently coming from hydroelectric sources, the shortage experienced in 1979 imposed serious problems on the Company. During the period August through November the natural flow of the Columbia River at The Dalles was the lowest in 55 years. Reservoirs were below normal by 7.6 billion kilowatt hours at the end of November 1979.

Not only were our owned or long-term contracted hydroelectric resources down as compared to the previous year, but surplus power of any kind or at any price was also in short supply.

A state of emergency was de-

clared in late November by Oregon regulatory authorities, and the governors of Oregon and Washington united in their appeal to citizens for increased conservation. Mandatory curtailment was avoided when heavy December rains and snowfall temporarily helped reservoirs and the Trojan nuclear plant was permitted to go back on line on December 31. Potential shortages still exist as snowpack surveys indicate a spring runoff about 80 percent of normal. The region needs heavy late-winter and early spring precipitation.

Company power supply will be greatly improved for next five years.

With the addition of the 530-megawatt Boardman coal plant going on line in August 1980, plus other scheduled additions, the Company will move from its present tight condition into one of the region's most favorable supply situations until the mid-1980s. Partnerships in new coal plants, possible hydroelectric and co-generation development, and increased conservation and contributions of solar assist and other alternate sources are being studied to meet those late 1980 requirements.

Diversified power resources provide good system balance.

PGE's "power eggs" are not all in one or two baskets but take advantage of the varied resources available. This increased diversity, improved by the addition of the Boardman coal plant in 1980, will not only improve reliability of service but will also dilute the vulnerability of the Company to single source shortages or price hikes.

Hydroelectric: PGE owns and operates eight hydroelectric generating plants with a combined net peaking capacity of 661 megawatts. In addition, the Company has long-term supply contracts with the owners of four hydroelectric projects on the mid-Columbia River: Priest Rapids, Wanapum, Rocky Reach and Wells. These contracts are in force until after the year 2000 and presently represent nearly 735

megawatts of net capability. In 1979, PGE's hydro projects plus the above long-term contracts provided 40 percent of the Company's power requirements.

Peaking contracts with the Bonneville Power Administration and the Columbia Storage Power Exchange provide a 774-megawatt peaking resource.

The Company has also contracted for the output of the 36-megawatt City of Portland's Bull Run hydroelectric project scheduled for completion in 1982.

A new hydroelectric unit at Willamette Falls on the Willamette River near Oregon City is being considered. Under present plans the plant would provide a 60-megawatt peaking capacity and a 35-megawatt average energy contribution. Before a final decision is made; Federal, state and community input is essential. Partnership in the unit by others is being explored.

Nuclear: PGE owns 67.5 percent of the Trojan nuclear plant and receives about 729 megawatts of its output at full power. Under normal operation it is expected to supply about 25 to 30 percent of the Company's annual energy requirements.

The Trojan plant has operated well since returning on line December 31, 1979, operating 98.3 percent of the time and providing 1.4 billion kilowatt hours of needed power to the region in January and February 1980. During 1979 the plant generated 5.5 billion kilowatt hours to serve Pacific Northwest customer needs.

Trojan is scheduled for refueling and maintenance this spring and early summer when load demands will be down.

Future nuclear resources include our 124-megawatt share of the Washington Public Power Supply System unit #3, due on line in 1985, and a total of 890 megawatts in the early 1990's from the first units of the Pebble Springs and Skagit plants.

Combustion Turbines: These units provide supplementary peaking and emergency capacity when required. The 534-megawatt combined-cycle Beaver

combustion turbine delivered much needed service during the year. At full capacity it provides nearly as much capacity as the eight company-owned hydroelectric projects, but of course at much greater expense. To provide greater flexibility, provisions are being made to operate Beaver with natural gas as well as oil.

The 116-megawatt Bethel combustion turbine operates on either oil or natural gas. A permit was issued in late 1979 allowing increased hours of operation beginning in 1980. The 233-megawatt Harborton unit located in Portland, was used to provide needed emergency service in December 1979, but under agreement with the city of Portland it must be moved by May 1981 to another location to protect the metropolitan airshed. The Company is considering the Boardman site as an alternate location.

The Company's combustion turbines supplied about 5.5 percent of its 1979 energy needs, but were crucial suppliers at the time they were operating.

Coal: Our 2.5 percent ownership of the 1,313-megawatt Centralia coal-fired generating plant in Washington gives us 32 megawatts. Upon completion of the 530-megawatt Boardman plant in August of 1980 and Colstrip's two 700-megawatt units in 1984, coal will make a significant contribution to our resources. A second coal-fired unit at Boardman is under consideration. The Company is also exploring prospects of participating in coal-fired plant projects with other utilities in the state of Washington.

Other Sources: The interconnecting of bulk power systems in the region for the exchange of power and the Northwest-Southwest intertie have benefited the Company in several ways. The 4,000-megawatt intertie reduces the amount of capacity needed to meet peak demands, provides system support during emergencies, and offers a market for, and a source of, surplus electricity in either direction when available.

POWER

Nuclear fuel for Trojan under contract through 1987.

Fuel for the Trojan plant undergoes several processes from mine to end use in the reactor. Contracts for each step have been secured to assure a reliable fuel supply for the next seven years.

Enough refined uranium, known as "yellowcake," has been purchased for plant operation through 1989. The yellowcake is converted to uranium hexafluoride and then goes through an enrichment process under a 30-year contract with the U.S. Department

of Energy. The final step is when the enriched fuel is fabricated into fuel rods. PGE has a contract with Westinghouse for this process extending to 1987.

Yellowcake has also been purchased and fuel fabrication contracts signed for Pebble Springs #1.

20-year Boardman coal contract set.

During the next 20 years 1.2 million tons of coal for the Boardman plant will be purchased annually from AMAX Coal Company. Source of coal is the AMAX mining development

near Gillette, Wyoming—1,200 miles away.

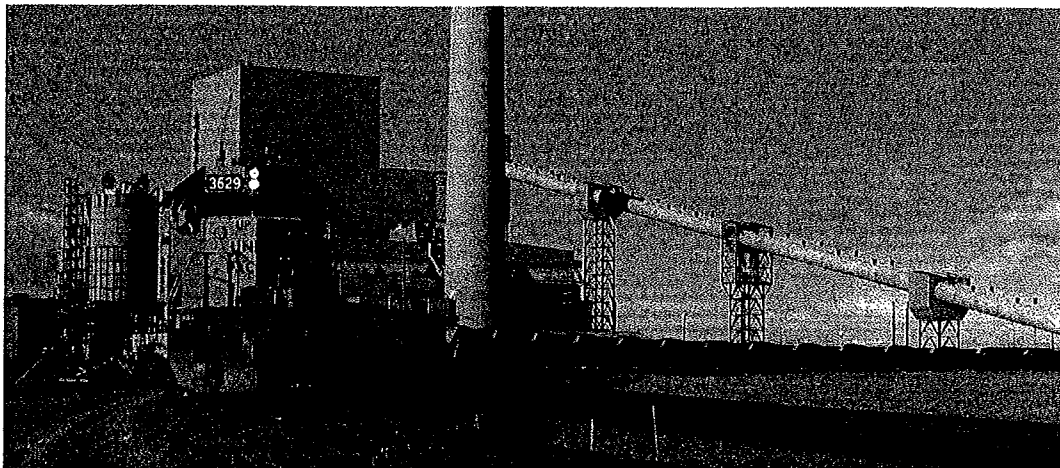
20,000 barrels of oil per month available under 2½ year contract.

On site storage for 1.7 million barrels of oil is available and we had an inventory of more than 1 million barrels as of March 1, 1980. PGE has a 2½ year oil contract with Western Oil Marketing for 20,000 barrels per month. Spot purchases were possible in 1979 due to warm weather conditions but it is impossible to know what the supply situation will be in the years ahead.

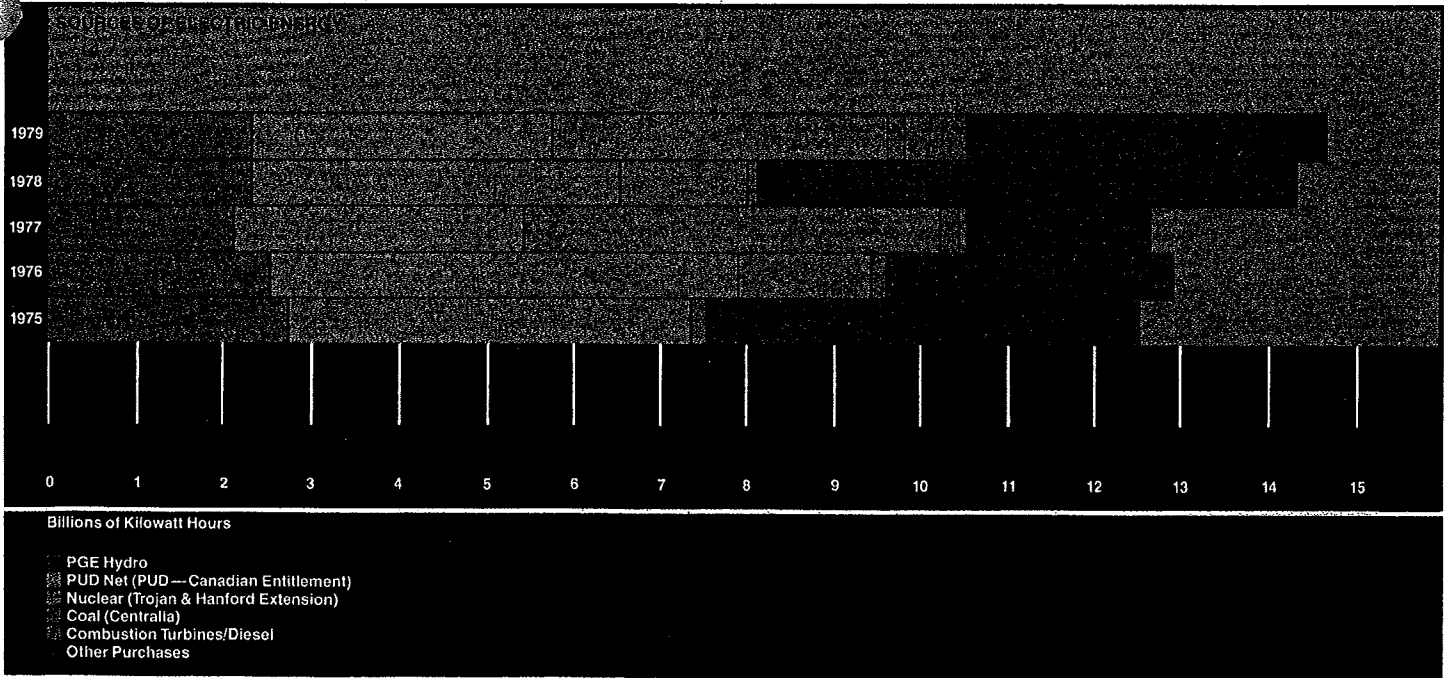
Coal and uranium mining/exploration operations underway.

Uranium mining development will be completed in 1980 at the Miracle Mine in Kern County, California. The Company owns 95 percent of the mine with first rights to purchase all of the uranium produced within the area under its control. Prospects warrant further exploratory work in 1980 on PGE's joint uranium venture in Colorado.

The Company has a 50 percent interest in The Beartooth Coal Company which has begun operation of a small underground coal mine near Red Lodge, Montana. It is expected to begin producing about 12,000 tons per month early in 1980. Additional drilling will be undertaken to assess the quality of the estimated additional 175 million tons of in-place coal believed to be there.



Coal began arriving in January at the Boardman power plant in north central Oregon. Shown is one of two 100-car unit trains leased by PGE.



FUEL SUPPLY

Growing... to serve residential housing construction such as the huge Mountain Park development in Lake Oswego being viewed here by Arden Peters, Residential Customer Field Services Representative in PGE's Central Division. There were 17,458 new residential connects made to PGE lines during 1979.



Diversified financings provide capital for Company's growth.

Building new utility plants to meet present and future demand requires that large amounts of new capital be raised from a variety of sources. To finance the 1979 construction program (\$254 million, including \$60 million in ADC), the Company arranged long-term financing amounting to \$206 million. Major activity during the year included the following:

March

Sold 5,000,000 shares of common stock to the public at \$17.875 per share. Net proceeds were \$86.6 million.

Sold \$50 million of 10 percent notes due 1984 in the Eurodollar market. This financing was the first of its kind by a U.S. electric utility and enabled PGE to develop a new source of long-term capital.

July

Increased the Trojan fuel trust by approximately \$26 million. The agreement was renegotiated to increase the amount that may be borrowed to \$100 million.

November

Entered into a tax oriented leveraged lease of the coal handling facilities located at the Boardman plant. Structuring and placement of this transaction took approximately 18 months. The Company received \$20 million in November and an additional \$11 million in January 1980.

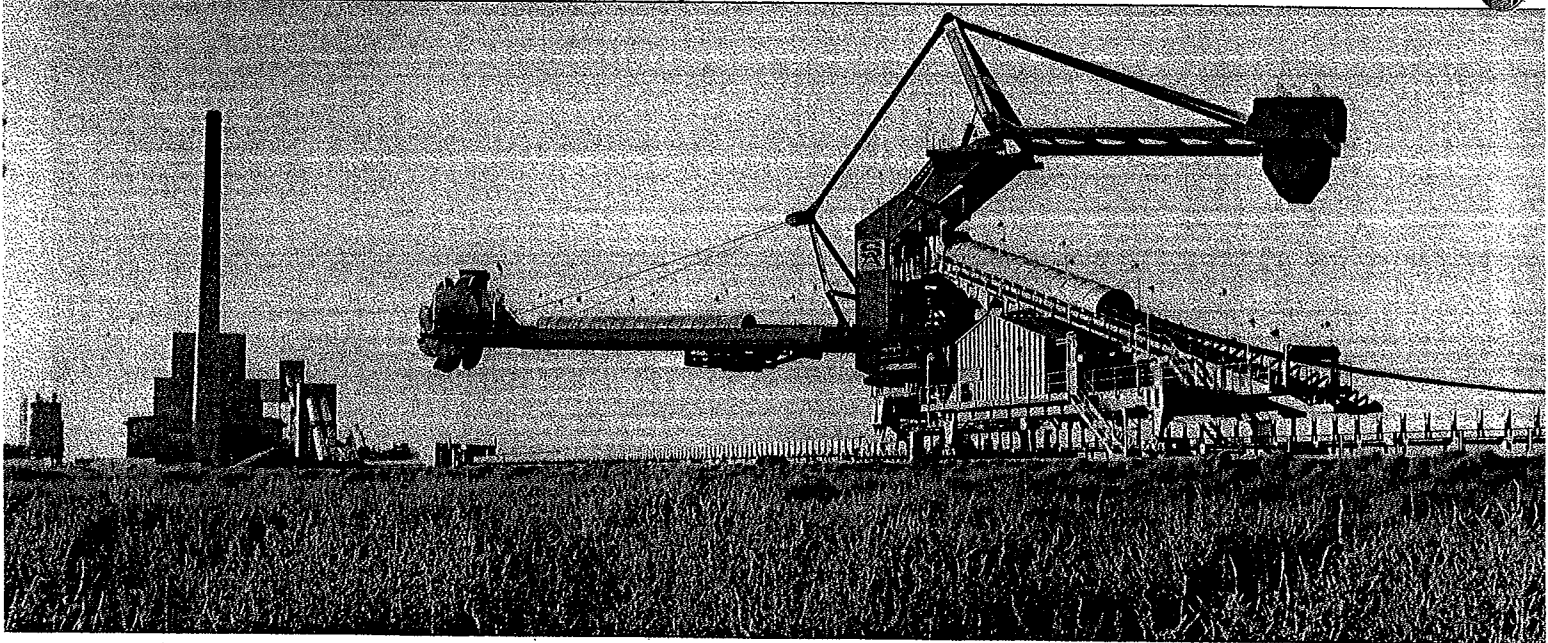
Other

Used an additional \$16 million on Port of Morrow pollution control bonds.

Participation in the Company's Dividend Reinvestment and Common Stock Purchase Plan provided approximately \$7.2 million.

Financing Future Construction.

PGE's 1980 utility construction program is currently estimated at \$300 to \$325 million (including \$75 million of ADC). To partially finance this program the Company sold four million shares of common stock to the public in January 1980 at \$14.375 per share. Net proceeds were \$55.3 million. The Company also sold in February 1980, \$55 million of 13.25 percent first mortgage bonds due 2000 on a private placement basis. In addition, the Company plans to sell additional shares of common stock and first mortgage bonds later in the year. The Company's utility construction program, which is subject to continuing review and adjustment is currently forecast for the two years 1981-1982 to be in the range of \$575 to \$650 million. This program will require significant external financings.



A favorable lease of Boardman coal handling facilities was finalized in November '79. Included was this main storage stacker/reclaimer unit capable of stacking 3500 tons of coal an hour.

FINANCING

Favorable rate action received. On June 1, 1979, PGE requested a general rate increase of 21.1 percent. Seven and one-half months later, on January 14, 1980, a general rate order was issued on one of the most complex cases ever filed by the Company. The order from Oregon Public Utility Commissioner John Lobbell authorized an initial rate increase of 17.7 percent. The increase was the second of five phases relating to the final disposition of the matters considered in the original filing. In his order, the Commissioner recognized the increased risk that is now attendant to utility operation and authorized a 15.17 percent rate of return on common equity and an 11.15 percent return on rate base.

Permanent power cost adjustment granted.

While the case was under consideration, the Company incurred such rapid changes in fuel prices and purchased power that it was forced to file a companion case which asked for a tracking increase to recover those increased costs of fuel and purchased power. Hearings were held on that issue and a permanent power cost adjustment similar to the one requested in the original filing was granted November 15, 1979. This permanent feature allows the Company to recover 80 percent of the excess cost of eligible fuel and purchased power above such expenses that were included in the base tariffs. The power cost adjustment is computed and adjusted on a quarterly basis and in the event that power costs are lower than anticipated in the base rates, 80 percent of the underrun in cost will be returned to the ratepayers through a negative power cost adjustment.

Additional increase when Boardman goes on line.

In its case the Company requested that since the Boardman plant would be on line during the last five months of 1980, that it be included in the rate base for those five months of the year and the total rate base be computed on the average of the entire year. The staff argued that passage of Ballot Measure 9 in 1978 precluded that request and proposed instead a second rate increase when the plant comes on line and calculated that increase to be the amount of the annualized cost of the Boardman facility. The Company must file the necessary financial documents not less than 45 days before the anticipated in-service date. This rate increase is expected to be in the 17 to 19 percent range.

Bonneville increase to be included.

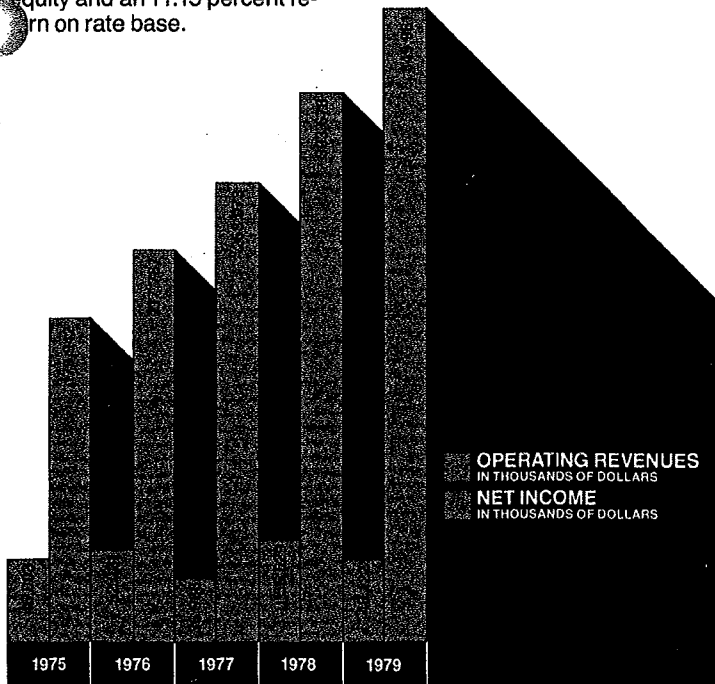
The Commissioner took note of the BPA wholesale rate increase effective December 20, 1979, but ordered that the Company defer with interest any increased expenses resulting from the Bonneville rate increase. On July 1, 1980, these deferred expenses as well as the estimated future BPA expenses will be included in a permanent rate increase which is now estimated to be about 7 percent.

PGE's filing included requests for institution of connection charges for all new customers as well as several other miscellaneous charges for service calls, bad check returns and customer transactions. The connection charge issue was separated from the case and is now being addressed in generic hearings. The customer transaction charge was denied but the other miscellaneous charges were approved.

In the fall, while the case was still being decided, the Company also asked the Commissioner to consider the desirability and feasibility of banning electric heat for new single family residences where alternate fuels were readily available. The Company has not advocated a ban; and in fact, has reserved the right to argue against it when the matter is investigated. Hearings on this issue have been coupled with the connection charge proceedings and are being heard this spring.

The final phase of the rate case adjustments deals with the issue of property tax. The Company is currently litigating its property tax assessments and when that issue is finally resolved, rates will be adjusted.

During 1980 the Company will also be involved in many mandated rate proceedings because of the National Energy Act. These include lifeline rates and cogeneration tariffs. With inflation predicted to continue, the Company fully expects that it will require a general increase by the end of the first quarter of 1981.



RATES

Growing... to serve the Port of Portland. Jim Mathews, PGE Manager of Commercial-Industrial Customer Field Services, Central Division, stands on the largest drydock on the West Coast. The ship repair facility is one of four at the Port, which also owns and operates four major cargo terminals. In addition, the Port manages 600-acre and 3,000-acre industrial development parks.



Other PGE research programs include illumination engineering research for more efficient utilization of lighting, agri-engineering studies into bio-mass fuels, heat pump water heater development, and harnessing the wind.

PGE's involvement in geothermal experimentation and development continues to increase. The Company is a member of a steering committee for engineering and design of a five megawatt facility near Malta, Idaho. This

facility, the Raft River geothermal test facility, under the auspices of the Federal Department of Energy, will provide a wealth of design and operations data.

Leases and lease applications in the Mt. Hood and Three Sisters area of Oregon may eventually provide the Company with a local source of geothermal energy. PGE has applied for leases on 41,000 acres, presently has leases on 8,900 acres in these two areas, and is conducting preliminary investigations of their geothermal potential. PGE is also involved with four other utilities; Sierra Pacific Power, Pacific Power & Light, Eugene Water

and Electric Board, and Sacramento Municipal Utilities District, in construction of a 10-megawatt demonstration plant northeast of Reno, Nevada.

We are particularly pleased to be working together with more than 575 other utilities in pooling our resources and funds in a coordinated research program through EPRI. Through selection, funding, and management of research projects, EPRI promotes development of new, improved, and environmentally sound technologies for producing power at the lowest possible cost.

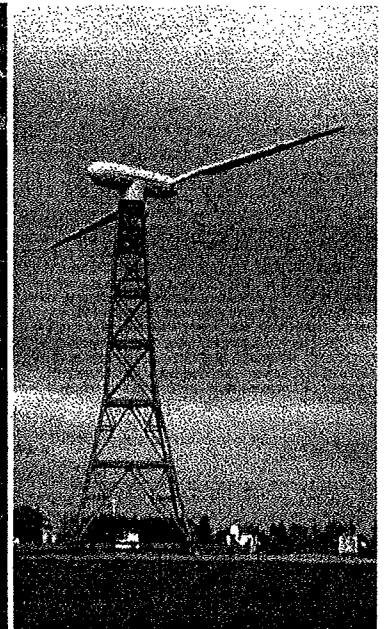
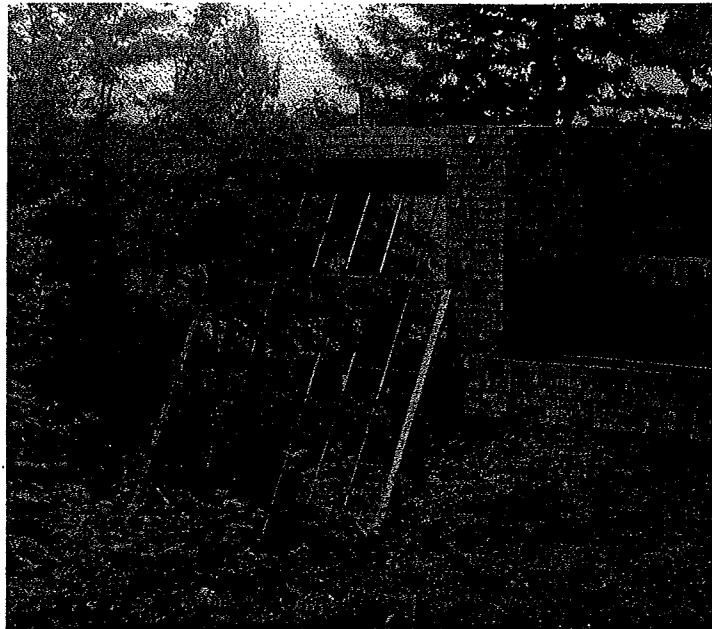
In 1980, EPRI's national budget will be approximately \$262 million. The monies will fund over 1,000 R & D projects under its management. Major study areas include nuclear, advanced power systems, conservation, synthetic fuels, coal gasification/liquification, geothermal, solar, fuel cells, and many other power sources of the future.

Solar, geothermal and wind programs in \$2.4 million research budget.

Development of alternate and supplemental energy sources continues to receive attention as the Company searches for ways to develop new generating options that are economically feasible and environmentally acceptable.

Over \$2.4 million is earmarked for research in our 1980 budget. \$1.7 million will go for projects managed by the Electric Power Research Institute (EPRI). An additional \$219,000 will be used to support the Liquid Metal Fast Breeder Reactor project.

Local Company research projects are budgeted for \$482,000, of which approximately 12 percent will go for solar demonstration programs in the PGE service area.



Local Solar Demonstration Programs play an important part in PGE's research and testing program. The Company has full-time solar experts on staff to assist customers in planning and to give installation guidance.

In the development of wind energy, PGE is supporting joint Electric Power Research Institute/DOE/NASA large wind demonstration programs which include this 100 kilowatt unit.

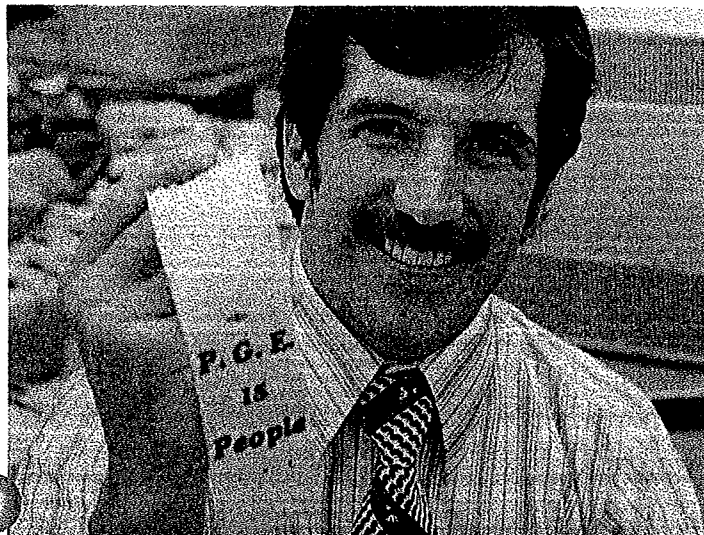
RESEARCH

"PGE is People" formed by employees to help tell Company story. "I

am involved... because I want to help in the effort to tell customers that we are not a bunch of cold people, but that we work hard to do our jobs in getting our service to them," commented Dave Elliot, Commercial Industrial Engineer, in explaining his involvement in the "PGE is People" Program.

This program was put together in 1979 by a group of employees who banded together to publicize the public service accomplishments of the people who make up the Company.

Clerks, accountants, linemen, meter readers, mechanics, customer service representatives, and engineers like Dave Elliot, are involved in communicating the story of how PGE is serving our customers' interests.



Many of our employees are members of planning commissions, school boards, PTA's and volunteer firefighter groups. As neighbors and members of the community they are uniquely qualified to help bridge the customer-company communications gap.

The Company encourages community involvement. Our employees have a history of getting involved. They provide leadership and participation in community organizations which are helping answer social needs. Schools, youth and seniors activities, programs for the handicapped and others are typical of such involvement.

PGE has always been highly regarded as the utility that contributes most to the community. Maintaining this posture at a time when customers are concerned about rising energy costs is extremely important. We care—and we want our customers to know it.

Seniors and handicapped receive special help. Four full-time Senior Citizen Representatives now provide special assistance to our elderly customers. Working out budget payments, applying for weatherization help, helping arrange government assistance and setting up Third Party Notice plans which designates a relative, friend or agency to be automatically notified if the service of a registered customer is in danger of being terminated, are some of the representatives' activities.

Special telecommunications devices (TCD) called "Porta-Tels" have now been installed at all Company offices enabling customer representatives to "talk" with customers having hearing and/or speech impairments. It works in conjunction with a regular telephone and operates like a typewriter.

Equal opportunity program continues in important role. The Company's commitment to a strong Equal Opportunity Program continued in 1979 with the percentage of minorities employed in metropolitan Portland and Salem areas exceeding the percentage of minorities in the labor market. On-site audits of the Company's Affirmative Action Plan by the government continue to be positive.

Top photo: Bruce Barnes, a meter reader supervisor, shows a "PGE is People" badge identifying his involvement in a special customer communications program.

Bottom photo: New 1979 customer services included this special "Porta-Tel," which aids in communications with customers having hearing or speech impairments.

PEOPLE

There are many signs for better years ahead. Good things are happening for the Company, and we see a welcome light at the end of the tunnel. The years ahead will not be without challenges. We don't pretend they will. But we have demonstrated our toughness and ability to serve our customers through drought, ice storms, regulatory shutdowns of Trojan and energy shortages. We find a way to do what needs doing. Our region is growing, customers appreciate and need our service, the Company's power supply will be greatly improved, and our earning opportunities appear to be much better. The ingredients are there for a brighter future.

The people are aware and involved in energy matters.

In the nation, as well as in the PGE service area, there is a deepening awareness and concern about the country's energy dilemma. In nearly all public opinion studies during the last half of 1979, the subject of energy was picked as the number one or two problem in the nation that must be solved. In large part this has been brought about by developments in foreign oil policy and prices, regulatory shutdowns and energy shortages.

This increased awareness is encouraging, because the solution to today's and tomorrow's energy problems lies in the will of the people. No one company, nor one industry can solve all of these problems—but understanding and support by/from the people on a course of action which will provide needed energy can provide the necessary impetus.

One of the major challenges this Company faces in the years ahead is to gain increased understanding for the need for long-range energy planning. Many people still feel that new energy developments can be available almost overnight. So procrastination on energy decisions seems painless. We must show the need, and point out the economic and lifestyle penalties of insufficient energy. It is a communication job that must be done over the immediate years ahead.

Coal, nuclear and small hydroelectric projects needed to meet needs of next quarter century and beyond. We still believe that in the region we serve, coal and nuclear plants must be counted on to meet the major needs in the years ahead. Small hydroelectric projects can help, as can perhaps other resources such as passive solar, geothermal, and wind. All must be evaluated and used where economically feasible.

This we will do. We will continue our effort to shorten the licensing process into a more realistic time frame.

The seven years the Company has been in the process of obtaining licensing approval for the Pebble Springs nuclear plants is clear evidence of the need for revision. The estimated cost for the two plants at the time of the original licensing applications was \$1.4 billion. The cost, because of delay, inflation and changing requirements is now estimated at over \$5 billion, and what it will be by the early 1990's is unknown. Stockholders and ratepayers should not have to pay excessive penalties for an unwieldy regulatory process.

We will continue to seek approval for the Pebble Springs plants, which we believe is the best nuclear site in the state of Oregon. It should be approved.

We most likely will move ahead in seeking approval for a second coal plant at the Boardman site. A draft State Attorney General's opinion indicates that lengthy and detailed analysis hearings may be required for site approval by the Oregon Energy Facility Siting Council. It is anticipated the Council will give the Boardman site matter high priority.

Research efforts on geothermal, passive solar, co-generation possibilities, wind and other forms of alternate energy will continue to be pursued.

Action on nuclear waste storage discouraging.

The dominant public concern regarding nuclear power is centered around the lack of disposal sites for high level waste in spent fuel. In February, President Car-

ter asked Congress for funding to examine salt domes and other sites in the South and West as potential disposal sites. The proposal contains funding of \$739 million for 1981.

The President's program would select at least one permanent site from 11 candidate sites by 1985, with expected operation in the early 1990's. He also intends to establish an away-from-the-reactor temporary storage site for spent fuel by 1983. While this is a more positive approach than has been taken earlier, it still does not recognize that reprocessing is clearly the most rational solution to the question of handling spent nuclear fuel.

Conservation effort to help customers must continue.

The Company will continue conservation and weatherization activities to help customers save kilowatt hours and reduce electric bills in the years ahead. Conservation helps everybody. It helps customers save and it helps the Company. Energy saved can be less costly than building equivalent generating facilities.

This will be the eighth consecutive year that conservation assistance has been aggressively offered to PGE customers.

Important political issues face Company in 1980.

On the national level the Pacific Northwest Electric Power Planning and Conservation Act, known in the area as the Re-

gional Energy Bill, is expected to receive U.S. House of Representatives consideration this session. It would provide regional resource planning, lower cost construction, financing conservation, and a sharing of lower cost federal power by our residential and rural customers. It is a fair bill and appears to have a good possibility of passage.

On the state level it is anticipated the Company will face several anti-nuclear measures on the November ballot. One of which would prohibit participation by any Oregon utility in any nuclear construction, another which would not allow construction until licensed nuclear waste depositories were in place. A third measure is one that would call for the closure of Trojan. The Company plans to undertake a forceful, positive information program to inform Oregonians of the severe adverse economic and social impact these measures would impose.

There are several areas of our service territory that have small groups seeking to take over portions of our system by the establishment of People's Utility Districts. With an uncertain power supply and extremely high costs to acquire power and facilities, it does not appear that they could offer rates as low as PGE does. We have no intention of selling any of our system and will oppose any takeover attempts. It will be a busy year.

FUTURE

**FINANCIAL AND
STATISTICAL**

Portland General Electric Company and Subsidiaries Management's Discussion and Analysis of Statements of Income

Net income and earnings per share for 1979 decreased from 1978 primarily as a result of excess power costs incurred during the second half of the year. Significant increases in revenues (11.6% rate increase in January 1979) and ADC were more than offset by the Company's inability to recover rapidly escalating power costs. The combination of poor hydro conditions beginning in August and the outage of the Trojan nuclear plant for repairs from mid-October until December 31, together with higher costs of fossil fuels and purchased power, resulted in excess power costs of approximately \$60 million. Of this amount, \$15 million was recovered under a permanent power cost adjustment tariff granted by the Public Utility Commissioner of Oregon effective November 15, 1979. Although this tariff will enable the Company to recover a significant portion of excess power costs in the future it did not apply to costs incurred prior to November 15.

The 1978 net income and earnings per share increased over 1977 primarily from an increase in rates and a change in accounting policy (Note 1). These increases were offset in part by the Trojan nuclear plant being out of service under order of the NRC from late June 1978 until January 1979, after it was determined that the design of the control building did not fully meet earthquake resistance standards stated in the plant's operating license. Trojan had been expected to supply approximately one-third of the Company's energy requirements during 1978. It was necessary to replace this lost generation with power at costs greatly in excess of Trojan's incremental costs. This resulted in increasing power costs by approximately \$26 million for the year 1978, including approximately \$20 million during the fourth quarter.

During 1977 the Pacific Northwest experienced the worst drought in its history and the resulting extremely unfavorable hydro conditions increased the Company's power costs more than \$16 million above those anticipated for the year. Of this amount only \$4 million was recovered through a rate surcharge. This contrasts with the extremely favorable hydro conditions which prevailed during the first eight months of 1976, reducing power costs during that period. As a result of these factors, and the timing and amount of general rate relief granted during 1977, earnings per share for 1977 were significantly less than earnings per share for 1976.

The following discussion relates to other significant factors affecting results of the Company's operations for 1977, 1978 and 1979.

Operating revenues have increased primarily as a result of the following rate increases:

September 1976—a 17.2% general rate increase.

September 1977—an excess power cost surcharge of 2.2 mills per Kwh from September 1 through December 1.

November 1977—a 12.6% general rate increase.

January 1979—an 11.6% general rate increase.

November 1979—a power cost adjustment surcharge of 4.0 mills per Kwh from November 15.

In addition, operating revenues increased in 1978 due to sales to other utilities.

Purchased power costs vary from year to year based upon the availability of low cost hydro power. The increase in 1977 resulted primarily from the drought which required substantial purchases of higher cost thermal power during the period from April through December to replace hydro power normally available. The increase in 1978 is a result of the Company purchasing excess hydro power for resale to other utilities and replacement power from August through December due to the Trojan shutdown. These costs continued at the same level during 1979 because of the poor hydro conditions and the Trojan outage.

Production expense increased in 1977 primarily as a result of the Trojan nuclear plant, which was placed in commercial operation during 1976. In addition, 1977 production expenses increased as a result of the drought. The decrease in 1978 results from the Trojan shutdown. The increase in 1979 reflects substantial usage of the Company's oil and gas fired combustion turbines to offset poor hydro conditions and the outage of Trojan.

Administrative and other expenses have increased primarily due to the effect of inflation, the increase in the number of customers and increases in the number and wages of employees.

Maintenance and repairs and depreciation expenses have increased primarily as a result of the increase in utility plant in-service, including the Trojan nuclear plant which was declared available for commercial operation in May 1976. In addition maintenance and repairs increased in 1979 as a result of a severe ice storm in January and repairs to Trojan during the above mentioned outage.

Taxes on income increased in 1977 and 1979 and decreased in 1978. Changes in Federal and state income taxes are generally related to changes in income before income taxes. See Note 1 for the Company's income tax accounting policies and Note 2 for details of taxes on income.

Allowance for funds used during construction (ADC) increased as a result of increases in the Company's construction work in progress. In addition, 1979 was affected by an increase in the ADC rate for all construction expenditures, and 1978 was affected by an increase in the ADC rate for certain projects effective November 15, 1977 (Note 1).

Interest on long-term and short-term borrowings have increased as substantial long-term debt financings and the use of short term borrowings have been required to support the Company's construction program. In addition, long and short term interest rates were higher during 1979.

Portland General Electric Company and Subsidiaries
Consolidated Statements of Income

For the Years Ended December 31	1979	1978	1977	1976	1975
	(Thousands of Dollars)				
Operating Revenues (Note 1)	<u>\$349,981</u>	<u>\$303,678</u>	<u>\$253,073</u>	<u>\$217,787</u>	<u>\$179,942</u>
Operating Expenses					
Purchased power	75,111	76,911	40,619	31,028	41,821
Production	69,522	23,794	30,239	15,093	9,087
Transmission and distribution	12,805	11,672	9,829	8,859	8,824
Administrative and other	38,728	33,914	29,248	23,639	18,514
Maintenance and repairs	18,418	13,313	12,895	8,897	7,194
Depreciation (Note 1)	33,642	31,587	28,159	22,112	13,890
Taxes other than income taxes	24,166	24,280	23,951	20,972	16,957
Taxes on income (Notes 1 and 2)	12,300	4,968	5,006	4,510	1,493
	<u>284,692</u>	<u>220,439</u>	<u>179,946</u>	<u>135,110</u>	<u>117,780</u>
Operating Income	<u>65,289</u>	<u>83,239</u>	<u>73,127</u>	<u>82,677</u>	<u>62,162</u>
Other Income					
Allowance for equity funds used during construction (Note 1)	27,445	9,058	5,089	4,360	6,317
Other income and deductions	1,270	5,325	541	988	(641)
	<u>28,715</u>	<u>14,383</u>	<u>5,630</u>	<u>5,348</u>	<u>5,676</u>
Interest Charges					
Interest on long-term debt	70,326	58,206	48,528	40,711	28,519
Interest on short-term borrowings	9,096	8,973	4,794	5,447	9,211
Other interest and amortization	1,030	1,183	846	899	347
Allowance for borrowed funds used during construction (Note 1)	(32,570)	(19,524)	(12,399)	(11,053)	(16,242)
	<u>47,882</u>	<u>48,838</u>	<u>41,769</u>	<u>36,004</u>	<u>21,835</u>
Income before cumulative effect of change in accounting policy	46,122	48,784	36,988	52,021	46,003
Cumulative effect to January 1, 1978 of accruing estimated unbilled revenues—less income taxes of \$8,503 (Note 1)	—	7,845	—	—	—
Net Income	<u>\$ 46,122</u>	<u>\$ 56,629</u>	<u>\$ 36,988</u>	<u>\$ 52,021</u>	<u>\$ 46,003</u>
Preferred Dividend Requirement	13,830	14,175	13,657	11,812	9,818
Common Stock					
Income available	\$ 32,292	\$ 42,454	\$ 23,331	\$ 40,209	\$ 36,185
Average shares outstanding	30,403,911	24,709,977	21,414,344	17,687,431	14,333,333
Earnings per share					
Before cumulative effect of change in accounting policy	\$1.06	\$1.40	\$1.09	\$2.27	\$2.52
Cumulative effect to January 1, 1978 of accruing estimated unbilled revenues—net	—	.32	—	—	—
Earnings per share	<u>\$1.06</u>	<u>\$1.72</u>	<u>\$1.09</u>	<u>\$2.27</u>	<u>\$2.52</u>
Dividends declared per share	<u>\$1.70</u>	<u>\$1.70</u>	<u>\$1.70</u>	<u>\$1.64</u>	<u>\$1.58</u>

Consolidated Statements of Retained Earnings

For the Years Ended December 31	1979	1978	1977	1976	1975
	(Thousands of Dollars)				
Balance at Beginning of Year	\$ 94,918	\$ 94,978	\$108,146	\$ 97,901	\$ 84,626
Net Income	46,122	56,629	36,988	52,021	46,003
	<u>141,040</u>	<u>151,607</u>	<u>145,134</u>	<u>149,922</u>	<u>130,629</u>
Deduct					
Dividends declared					
Common stock	53,130	42,514	36,408	29,964	22,910
Preferred stock	13,830	14,175	13,748	11,812	9,818
	<u>66,960</u>	<u>56,689</u>	<u>50,156</u>	<u>41,776</u>	<u>32,728</u>
Balance at End of Year	<u>\$ 74,080</u>	<u>\$ 94,918</u>	<u>\$ 94,978</u>	<u>\$108,146</u>	<u>\$ 97,901</u>

The accompanying notes are an integral part of these statements.

20 Portland General Electric Company and Subsidiaries
Consolidated Balance Sheets

Assets

At December 31

1979 1978

(Thousands of Dollars)

Electric Utility Plant—Original Cost

In service		
Production	\$ 597,917	\$ 580,710
Transmission	134,495	133,310
Distribution	385,104	354,289
General	<u>58,975</u>	<u>49,858</u>
	1,176,491	1,118,167
Accumulated depreciation (Note 1)	<u>(203,572)</u>	<u>(173,097)</u>
	972,919	945,070
Construction work in progress (Note 6)	617,300	463,274
Nuclear fuel, less accumulated amortization of \$29,476 and \$16,278 (Note 1)	<u>68,578</u>	<u>74,518</u>
	<u>1,658,797</u>	<u>1,482,862</u>
Other Property and Investments	20,955	12,300
Current Assets		
Cash	4,909	4,387
Receivables		
Customer accounts	28,120	22,477
Other accounts and notes	4,625	5,880
Reserve for uncollectible accounts	(234)	(536)
Estimated unbilled revenues (Note 1)	21,781	20,209
Materials and supplies, at average cost		
Fuel oil	28,591	5,668
Other	13,187	11,585
Property taxes applicable to subsequent periods	9,697	9,402
Prepayments	7,394	2,342
Deferred power costs (Note 1)	<u>7,320</u>	<u>—</u>
	<u>125,390</u>	<u>81,420</u>
Deferred Charges	16,186	11,456
	<u>\$1,821,328</u>	<u>\$1,588,038</u>

Capitalization and Liabilities

at December 31	1979	1978
	(Thousands of Dollars)	
Capitalization (see accompanying statements)		
Common stock equity	\$ 551,612	\$ 478,759
Cumulative preferred stock	150,000	151,500
Long-term debt	754,441	735,119
	<u>1,456,053</u>	<u>1,365,378</u>
Current Liabilities		
Long-term debt due within one year (Note 5)	50,988	9,714
Current sinking fund—preferred stock (Note 3)	1,500	3,000
Bank loans (Note 4)	130,000	71,000
Accounts payable and other accruals	98,551	68,933
Wages and salaries payable	2,081	1,685
Accrued interest	15,414	11,773
Dividends payable	16,814	14,588
Accrued general taxes	18,918	15,708
Accrued income taxes	865	457
Deferred income taxes (Note 1)	11,392	9,375
	<u>346,523</u>	<u>206,233</u>
Other		
Deferred income taxes (Note 1)	14,673	12,650
Deferred investment tax credits (Note 1)	2,366	2,468
Miscellaneous	1,713	1,309
Commitments and contingencies (Note 7)	—	—
	<u>18,752</u>	<u>16,427</u>
	<u>\$1,821,328</u>	<u>\$1,588,038</u>

The accompanying notes are an integral part of these statements.

22 **Portland General Electric Company and Subsidiaries**
Consolidated Statements of Capitalization

At December 31	1979		1978	
	(Thousands of Dollars)			
Common Stock Equity (Note 3)				
Common stock, \$3.75 par value per share, 50,000,000 shares authorized, 31,435,856 and 25,995,935 shares outstanding	\$ 117,884		\$ 97,485	
Other paid-in capital	363,631		290,197	
Capital stock expense	(3,983)		(3,841)	
Retained earnings	74,080		94,918	
	<u>551,612</u>	37.9%	<u>478,759</u>	35.1%
Cumulative Preferred Stock (Note 3)				
\$100 par value per share, 2,500,000 shares authorized				
9.76% Series, 100,000 shares outstanding	10,000		10,000	
7.95% Series, 300,000 shares outstanding	30,000		30,000	
7.88% Series, 200,000 shares outstanding	20,000		20,000	
8.20% Series, 200,000 shares outstanding	20,000		20,000	
11.50% Series, 195,000 and 225,000 shares outstanding	19,500		22,500	
Current sinking fund on 11.50% Series	(1,500)		(3,000)	
8.875% Series, 270,000 shares outstanding	27,000		27,000	
\$25 par value per share, 6,000,000 shares authorized				
\$2.60 Series, 1,000,000 shares outstanding	25,000		25,000	
	<u>150,000</u>	10.3	<u>151,500</u>	11.1
Long-term Debt (Note 5)				
First mortgage bonds				
Maturing 1980 through 1985				
10½% Series due December 1, 1980	40,000		40,000	
10% Series due April 1, 1982	40,000		40,000	
3¾% Series due November 1, 1984	7,126		7,126	
9¾% Series due June 1, 1985	27,000		27,000	
Maturing 1986 through 1990—4¼-5¼%	28,160		28,980	
Maturing 1991 through 1995—4½-5½%	66,682		67,645	
Maturing 1996 through 2000—5¾-9¾%	189,951		190,142	
Maturing 2001 through 2005—7¾-11½%	142,000		142,000	
Maturing 2006 through 2007—8¾-9½%	100,000		100,000	
Pollution control bonds, Port of St. Helens, Oregon, 7¾%, due 2006 (guaranteed by Company)	12,735		12,735	
Pollution control bonds, Port of Morrow, Oregon, 6¾%, due 2008 (guaranteed by Company)	34,000		34,000	
Amount held by trustee	(10,560)		(26,849)	
10% notes due March 1, 1984	50,000		—	
Trojan trust notes	77,975		51,713	
Boardman loan agreement	—		30,000	
Other	1,124		1,148	
	<u>806,193</u>		<u>745,640</u>	
Unamortized premium and discount—net	(764)		(807)	
	<u>805,429</u>		<u>744,833</u>	
Long-term debt due within one year	(50,988)		(9,714)	
	<u>754,441</u>	51.8	<u>735,119</u>	53.8
Total capitalization	<u>\$1,456,053</u>	<u>100.0%</u>	<u>\$1,365,378</u>	<u>100.0%</u>

The accompanying notes are an integral part of these statements.

NOTE 1. SUMMARY OF ACCOUNTING POLICIES

The Company's accounting policies conform to generally accepted accounting principles for regulated public utilities and are in accordance with the accounting requirements and the ratemaking practices of the regulatory authorities having jurisdiction.

Consolidation Principles—The financial statements include the accounts of the Company and its wholly owned subsidiaries. Intercompany balances and transactions have been eliminated.

Revenues—Prior to 1978 revenues were recorded as customers were billed, principally on a cycle basis throughout each month. This resulted in unrecorded revenue at the end of an accounting period. The changes in unrecorded revenue from year to year were generally not significant. Due to the accelerating increase in rate levels and costs, the disparity between billed revenues and costs increased significantly. Accordingly, effective January 1, 1978, the Company changed to a method of accounting to accrue the amount of estimated unbilled revenues for services provided to the month end to more closely match revenues and costs. The cumulative effect of the change on years prior to 1978 is \$16,348,000 less income taxes of \$8,503,000.

Allowance for Funds Used During Construction (ADC)—ADC represents the net cost for the period of construction of borrowed funds used for construction purposes and a reasonable rate on other funds used. ADC is capitalized as part of the cost of utility plant and is credited to income but does not represent current cash earnings. The allowance for borrowed funds used during construction is calculated on a pre-tax basis. ADC is not capitalized for income tax purposes.

Effective January 1, 1977 the Federal Energy Regulatory Commission (FERC) established a formula to determine the maximum allowable ADC rate and ordered that the allowance for borrowed funds used during construction be credited to interest charges and that the allowance for other (equity) funds used during construction be credited to other income. A 7% ADC rate was used on all construction expenditures until November 15, 1977 when the maximum rate allowed under the FERC order was adopted for certain construction projects. Effective January 1, 1979 the maximum rate (11.5% for 1979) was adopted for all construction expenditures.

Depreciation—Depreciation provisions are based upon the estimated service lives of the various classes of plant and property in service. Prior to January 1, 1979 depreciation on generating plants placed in service after 1975 and transportation equipment was computed on a straight-line basis. Depreciation on the remaining plant and property in service, including substantial hydroelectric facilities, was computed on the 5% sinking fund method. The Company's sinking fund method yielded depreciation substantially the same as straight-line depreciation. Effective January 1, 1979 depreciation on all plant and equipment in service has been computed on a straight-line basis. Depreciation expense as a percent of the related average depreciable plant and property in service balances approximated 2.4% in 1975, 2.8% in 1976, and 3.0% in 1977, 1978 and 1979.

Depreciation of the Trojan nuclear plant includes provisions for estimated decommissioning costs. Such provisions are included in current rates to customers based on estimated decommissioning costs of approximately \$17,000,000. The Company and the Public Utility Commissioner of Oregon (Commissioner) are continuing to review the decommissioning costs estimate and it is expected that any increase in such costs will be provided for in future rate increases.

The cost of renewals and replacement of property units are charged to plant and repairs and maintenance are charged to expense. Property units retired, other than land, are charged to accumulated depreciation.

Amortization of Nuclear Fuel—The cost of nuclear fuel is amortized to expense based on the quantity of heat produced for the generation of electric energy. Effective January 1, 1979 the Commissioner has allowed increased revenues to provide for the estimated cost of permanent storage, including such cost for fuel consumed in prior years.

Retirement Plan—The Company has a noncontributory retirement plan for its employees. Total plan costs were \$1,840,000, \$2,758,000, \$3,162,000, \$3,290,000 and \$3,865,000 for the years 1975 through 1979. The plan was amended effective July 1, 1978 and at January 1, 1979 (latest actuarial valuation date) the unfunded actuarial liability was estimated to be \$15,000,000 and is being amortized over a 30-year period. At January 1, 1979 the actuarially computed present value of vested benefits exceeded the actuarial value of the plan assets by approximately \$2,000,000. The unfunded actuarial liability, the present value of vested benefits and the actuarial value of the plan assets have not changed materially at December 31, 1979.

In addition to the retirement plan, the Company has a group life insurance plan which provides life insurance benefits to both current and retired employees. The unfunded liability for post retirement life insurance benefits at January 1, 1979 is estimated at \$5,900,000. Employees contribute to the cost of insurance premiums through a fixed rate based upon the amount of insurance benefit and the balance of such cost is paid by the Company. During 1980, rates charged to customers include provisions to fund this liability over future periods.

Deferred Power Costs—Effective November 15, 1979 the Commissioner issued an order for a permanent power cost adjustment (PCA) tariff which provides for rate changes either up or down to the extent that certain power costs deviate from those included in the Company's general rate tariffs. The PCA covers two types of cost changes; (a) changes in the unit price of oil and gas used for combustion turbine generation, and (b) changes in the unit price of power purchased from other companies. The PCA provides that 80% of the costs associated with unit price changes, above or below those included in the general tariffs, be collected or refunded through an adjustment to customers' bills. Cost deviations greater than the total monthly adjustment are deferred and amortized to income during subsequent periods.

Income Taxes—Deferred income taxes are provided for timing differences between financial and income tax reporting to the extent permitted by the Commissioner for ratemaking purposes. Flow-through accounting is followed for other reductions of income taxes resulting from various provisions in the tax laws, primarily accelerated depreciation. Flow-through accounting has the effect of passing such reductions on to the Company's customers. Portions of deferred income taxes are classified as current liabilities to the extent the related assets are current. See Note 2 for details of major deferred tax items.

Tax reductions resulting from investment tax credits are amortized to income over a 30-year period, the approximate life of the related properties. The Company estimates it has approximately \$55,000,000 of investment tax credit carryforwards available for application against any future Federal income tax payments. Approximately \$29,000,000 of these carryforwards expire in 1982 and the balance expires in varying amounts during the years 1983 through 1986.

Portland General Electric Company and Subsidiaries

NOTE 2. INCOME TAX EXPENSE

The following table shows the detail of taxes on income and the items used in computing the differences between the statutory Federal income tax rate and the Company's effective rate.

	Years Ended December 31				
	1979	1978	1977	1976	1975
	(Thousands of Dollars)				
Utility					
Currently payable	\$ 143	\$ (25)	\$ (1,045)	\$ (1,727)	\$ (3,637)
Deferred income taxes					
Capitalized interest	7,943	3,342	4,433	4,013	6,529
Liberalized depreciation	3,361	1,354	2,409	2,787	630
Deferred power costs	1,810	—	—	—	—
Other	(855)	400	(457)	(541)	(540)
Investment tax credit adjustments	(102)	(103)	(334)	(22)	(1,489)
Total utility	<u>12,300</u>	<u>4,968</u>	<u>5,006</u>	<u>4,510</u>	<u>1,493</u>
Nonutility					
Currently payable	265	(8)	(379)	(42)	316
Deferred income taxes	1,153	(3,103)	1,632	1,930	—
Total nonutility	<u>1,418</u>	<u>(3,111)</u>	<u>1,253</u>	<u>1,888</u>	<u>316</u>
	<u>13,718</u>	<u>1,857</u>	<u>6,259</u>	<u>6,398</u>	<u>1,809</u>
Cumulative effect of accounting change					
Deferred income taxes	—	8,503	—	—	—
Total income tax expense	<u>\$13,718</u>	<u>\$10,360</u>	<u>\$ 6,259</u>	<u>\$ 6,398</u>	<u>\$ 1,809</u>
Computed tax based on statutory Federal income tax rates applied to income before income taxes and cumulative effect of accounting change	<u>\$27,526</u>	<u>\$24,307</u>	<u>\$20,758</u>	<u>\$28,041</u>	<u>\$22,950</u>
Less reductions in taxes resulting from					
Flow-through items					
Excess tax over book depreciation	6,019	12,921	7,319	15,447	13,263
Items capitalized for books and expensed for tax	—	2,210	2,007	2,308	2,503
Allowance for equity funds used during construction	12,699	6,612	4,274	3,649	4,667
Other	(4,910)	707	899	239	67
	<u>\$13,718</u>	<u>\$ 1,857</u>	<u>\$ 6,259</u>	<u>\$ 6,398</u>	<u>\$ 1,809</u>
Company's effective rate	22.9%	3.7%	14.5%	11.0%	3.8%

The Company has a Federal income tax net operating loss carryforward of approximately \$41,000,000 expiring principally in 1985 and 1986. Deferred taxes will be recorded to the extent that the loss carryforward is realized in the future.

It is anticipated that cash outlays for income taxes will not exceed income tax expense during each of the next three years.

NOTE 3. COMMON AND PREFERRED STOCK

The following changes occurred in the common stock, cumulative preferred stock and other paid-in capital accounts (dollar amounts in thousands).

	Common Stock		Cumulative Preferred Stock				
	Number of Shares	\$3.75 Par Value	Number of Shares	\$100 Par Value	Number of Shares	\$25 Par Value	Other Paid-in Capital
Outstanding, December 31, 1974	13,500,000	\$ 50,625	800,000	\$ 80,000	—	\$ —	\$108,146
Sales of stock	2,000,000	7,500	300,000	30,000	—	—	22,270
December 31, 1975	15,500,000	58,125	1,100,000	110,000	—	—	130,416
Sales of stock	3,559,909	13,350	—	—	1,000,000	25,000	54,799
Redemption of stock	—	—	(15,000)	(1,500)	—	—	—
December 31, 1976	19,059,909	71,475	1,085,000	108,500	1,000,000	25,000	185,215
Sales of stock	3,177,428	11,915	270,000	27,000	—	—	50,617
Redemption of stock	—	—	(30,000)	(3,000)	—	—	—
December 31, 1977	22,237,337	83,390	1,325,000	132,500	1,000,000	25,000	235,832
Sales of stock	3,758,598	14,095	—	—	—	—	54,367
Redemption of stock	—	—	(30,000)	(3,000)	—	—	—
December 31, 1978	25,995,935	97,485	1,295,000	129,500	1,000,000	25,000	290,197
Sales of stock	5,439,921	20,399	—	—	—	—	73,434
Redemption of stock	—	—	(30,000)	(3,000)	—	—	—
December 31, 1979	<u>31,435,856</u>	<u>\$117,884</u>	<u>1,265,000</u>	<u>\$126,500</u>	<u>1,000,000</u>	<u>\$25,000</u>	<u>\$363,631</u>

Cumulative preferred stock outstanding is redeemable at the option of the Company as follows: 9.76% Series at \$110 to November 1, 1980, 7.95% Series at \$105 to July 1, 1982, 7.88% Series at \$106 to April 1, 1983, 8.20% Series at \$106 to July 1, 1983, 11.50% Series at \$108 to January 15, 1985, 8.875% Series at \$108 to April 30, 1980 and \$2.60 Series at \$30 to April 1, 1981. Each Series is redeemable at reduced amounts after such respective dates.

Mandatory sinking fund requirements on the 11.50% and 8.875% Series preferred stock are \$1,500,000 through 1982 and \$3,300,000 from 1983 through 1992. The Company has the option to retire additional shares through the sinking funds.

At December 31, 1979 the Company had reserved 1,490,440 authorized but unissued shares of common stock for issuance under its dividend reinvestment and common stock purchase plan and 77,934 authorized but unissued shares of common stock for issuance under its employee stock purchase plan.

NOTE 4. SHORT-TERM BORROWINGS

At December 31, 1979 short-term borrowings of \$130,000,000 include \$105,000,000 under agreements with domestic banks and \$25,000,000 with foreign banks. At December 31, 1978 short-term borrowings of \$71,000,000 include \$21,000,000 domestic and \$50,000,000 foreign under the agreements.

Under a domestic credit agreement, the Company can borrow, repay, and reborrow up to a maximum of \$100,000,000. This five year agreement expires July 31, 1984 unless the Company exercises a three year term option. At the Company's option, interest rates on borrowings are based (i) on the London interbank offered rate (LIBOR) at the time of each borrowing or (ii) on the higher of the prime commercial rate or the 90-119 day prime commercial paper rate plus $\frac{1}{2}$ of 1% (Base Rate). Interest rates during the first two years of the agreement are as follows:

Utilization	LIBOR	Base Rate
Up to \$50 million	LIBOR plus $\frac{3}{4}$ of 1%	Base Rate
\$50 up to \$100 million	LIBOR plus $\frac{1}{2}$ of 1%	105% of Base Rate

The agreement provides for a commitment fee of $\frac{1}{2}$ of 1% per annum on the unused commitment and a facility fee determined by multiplying \$1,050,000 at the end of each quarter by the average daily Base Rate.

The Company has other domestic lines of credit totaling \$25,000,000. Borrowings under the lines are at the prime commercial rate. It is understood that compensating cash balances equal to 10% of the lines will be maintained; however, there are no legal restrictions as to the withdrawals of such balances.

Under the foreign credit agreement, which expires on October 31, 1980, the Company may borrow up to a maximum of \$50,000,000. The interest rate on borrowings is $\frac{3}{4}$ of 1% above the London interbank offered rate at the time of each borrowing. There is a commitment fee of $\frac{1}{2}$ of 1% per annum on the unused commitment if utilization is less than 50% and $\frac{3}{4}$ of 1% if utilization is 50% or higher.

Average daily amounts of short-term borrowings outstanding during 1979 and 1978 were \$55,876,000 and \$69,685,000; weighted average daily interest rates on such amounts were 13.2% and 9.8%; weighted average interest rates at December 31, 1979 and 1978 were 15.7% and 12.1%. The maximum amount of short-term borrowings outstanding during 1979 and 1978 was \$130,000,000 and \$100,000,000. The interest rates exclude the effect of commitment fees, facility fees, and compensating cash balances.

NOTE 5. LONG-TERM DEBT

The Indenture securing the Company's first mortgage bonds constitutes a direct first mortgage lien on substantially all utility property and franchises, other than expressly excepted property, and a portion of the Boardman coal plant.

Under an agreement with a trust, the Company finances its fuel for the Trojan nuclear plant. In addition, the trust can provide funds, not to exceed 40% of the trust's assets, to the Company on its promissory note issued to the trust. The maximum financing provided by the agreement is \$100,000,000. The fuel notes are repaid as the fuel is consumed and all borrowings, including those on the promissory note, are due March 1, 1982 at the earliest or March 1, 1988 at the latest. At December 31, 1979 the weighted average interest rate on outstanding notes was 14.8%. The estimated current portion of the fuel notes (\$9,055,000) is included in current liabilities.

To finance a portion of the Company's share of costs for the Boardman coal plant, a wholly owned subsidiary of the Company entered into a \$125,000,000 loan agreement

Portland General Electric Company and Subsidiaries

with a group of banks. Loans under the agreement are secured by plant and are guaranteed by the Company. The interest rate on borrowings is equal to 117% of the prime commercial rate. There is a commitment fee of 1/2 of 1% per annum on the unused commitment. Any loans outstanding at completion of the project or December 31, 1981, whichever is earlier, are to be paid in six equal semi-annual installments.

The following principal amounts of long-term debt become due for redemption through sinking funds and maturities during the years 1980 through 1984.

	Long-term Debt	
	Sinking Funds	Maturities
	(Thousands of Dollars)	
1980	\$3,634	\$40,000
1981	4,300	—
1982	9,041	40,000
1983	9,541	—
1984	9,301	56,480

The sinking funds include \$1,701,000 in 1980, \$2,201,000 in 1981, \$2,701,000 in 1982, \$3,201,000 in 1983 and \$3,201,000 in 1984 which, in accordance with the terms of the Indenture, the Company anticipates satisfying by pledging available additions equal to 166% of the sinking fund requirements.

NOTE 6. FINANCING AND CONSTRUCTION

The Company's utility construction program, which is subject to continuing review and adjustment, is estimated in the range of \$875,000,000 to \$975,000,000 for the years 1980-1982 (including ADC and nuclear fuel). This estimate is based on the Company's present plans for joint ownership of certain future generating facilities (see table on page 7).

The Company presently expects that for the above three-year period approximately 85% to 90% of its cash construction costs will require external financing including the sale of equity and debt securities. The issuance of additional preferred stock or first mortgage bonds requires the Company to meet certain earnings coverage provisions. Presently the Company is unable to issue preferred stock and may be unable to do so during the balance of 1980. After the sale of \$55,000,000 of first mortgage bonds in February 1980, the Company estimates it will be unable to issue additional bonds until later in the year. The ability to meet the earnings coverage provisions to issue additional preferred stock and first mortgage bonds is primarily dependent upon improved earnings for 1980 and upon the adequacy and timeliness of rate relief thereafter.

In the absence of adequate and timely rate relief, the Company will consider reducing its construction program through the sale of partial interests in future generating units and/or the delay in the construction of future facilities, which could impair the quality and reliability of service to its customers.

Construction work-in-progress includes the Company's share of the Pebble Springs and Skagit nuclear projects. A summary of the expenditures as of December 31, 1979 follows:

	Pebble Springs	Skagit
	(Thousands of Dollars)	
Equipment	\$ 54,221	\$39,960
ADC	25,789	17,440
Other — including engineering and licensing	33,370	32,324
	<u>\$113,380</u>	<u>\$89,724</u>

The above projects have been significantly delayed due to regulatory proceedings and litigation relating to Federal and state laws and regulations, including environmental considerations. As a result of the accident in 1979 at the Three Mile Island nuclear plant in Pennsylvania, additional delays at both the Federal and state level were encountered which made it necessary to reschedule the estimated completion dates for these projects until in the early 1990's. These delays will increase substantially the estimated cost of the projects.

Although the outcome of regulatory proceedings and litigation cannot be predicted with certainty, management presently believes the two projects will ultimately be built. If the necessary licensing of a particular project cannot be obtained, then subject to regulatory approval, the Company would either attempt to transfer the project to another location and obtain construction approval and/or amortize any abandonment costs for accounting and ratemaking purposes over an approved length of time.

The Commissioner, in a recent order involving minor expenditures of another Oregon electric utility, stated that Ballot Measure 9 (adopted by the voters of Oregon in the 1978

Portland General Electric Company and Subsidiaries

lated loss value specified in the lease. The lease represents \$68,731,000 of basic lease commitments.

During 1978 the Company entered into a sale/leaseback of its headquarters complex for a basic lease term of 40 years with up to 25 years of renewal options. The Company has options, commencing in 2003, to repurchase the complex for fair market value as encumbered by the lease. At the end of the basic lease term the Company must offer to purchase the complex for \$15,000,000. A mortgage on the complex of \$31,737,000 was assumed by the lessor and is guaranteed by the Company. This lease represents \$196,608,000 of basic lease commitments and the \$8,791,000 sublease rental credits, for a net rental commitment of \$187,817,000.

Lease commitments on two combustion turbine leases, expiring in 1998 and 1999, represent \$83,846,000 of non-capitalized financing leases. In the event of certain contingencies the Company may be required to purchase the turbines at a maximum price of \$55,850,000 in 1980 and at decreasing amounts thereafter. At the expiration of each lease the Company has an option to renew the lease for five years at the then fair rental value or to purchase the turbines at the then fair market value.

Substantially all other leases with renewal options provide for negotiation of the rental amount at the time such options are exercised. Other leases with purchase options are not material.

In compliance with the reporting requirements of the Securities and Exchange Commission, certain leases presently accounted for as non-capitalized financing leases meet the criteria for classification and accounting as capital leases. If such leases had been accounted for as capital leases, assets would have increased by \$46,587,000 and \$44,764,000 and liabilities would have increased by \$51,874,000 and \$50,977,000 at December 31, 1978 and 1979. The resulting net increase in expenses would have been \$1,030,000 in 1978 and \$1,055,000 in 1979. For rate-making purposes these disclosures are not meaningful since these assets were not used by the Commissioner in determining rates charged to customers.

NOTE 8. SUPPLEMENTARY INCOME INFORMATION

	Years Ended December 31				
	1979	1978	1977	1976	1975
Taxes other than income taxes					
		(Thousands of Dollars)			
Property	\$15,798	\$17,322	\$17,802	\$15,897	\$12,784
Payroll	2,448	1,904	1,645	1,306	1,061
City taxes and license fees	5,340	4,592	4,003	3,370	2,779
Other	580	462	501	399	333
Total	<u>\$24,166</u>	<u>\$24,280</u>	<u>\$23,951</u>	<u>\$20,972</u>	<u>\$16,957</u>
Rentals charged to operating expenses					
Basic rentals*	\$ 2,455	\$ 2,659	\$ 1,838	\$ 1,231	\$ 1,141
Contingent rentals**	809	726	429	159	160
Non-capitalized financing leases*	5,526	5,191	5,110	4,595	4,376
Total	<u>\$ 8,790</u>	<u>\$ 8,576</u>	<u>\$ 7,377</u>	<u>\$ 5,985</u>	<u>\$ 5,677</u>
Depreciation and amortization					
Utility	\$33,642	\$31,587	\$28,159	\$22,112	\$13,890
Nonutility	—	713	415	—	—
Amortization of nuclear fuel	13,198	2,708	10,974	2,596	—
Total	<u>\$46,840</u>	<u>\$35,008</u>	<u>\$39,548</u>	<u>\$24,708</u>	<u>\$13,890</u>

*See Note 7(c) for details concerning the Company's long-term lease commitments.

**Based on kwh of gross generation at certain Company hydroelectric projects.

The amounts for maintenance and repairs, depreciation and taxes other than income taxes included in the Consolidated Statements of Income but not set out separately therein are not material. The amounts of amortization of intangible assets and advertising costs are not material.

NOTE 9. LITIGATION

In February 1979 the Company filed suit in United States District Court for the District of Oregon seeking to recover from Bechtel Corporation and Bechtel Power Corporation all costs incurred as a result of errors in the design of the Trojan plant's control building. The costs included excess replacement power costs of \$26 million incurred during the shutdown of the plant during the second half of 1978 and an estimated \$6.5 million for other expenses, including any necessary modifications to the plant.

In March 1979 Bechtel Corporation and Bechtel Power Corporation filed their answer to the complaint alleging numerous affirmative defenses and counterclaims of approximately \$108 million. In the opinion of management and its legal counsel the counterclaims have little merit.

NOTE 10. SUBSEQUENT EVENTS

- (a) The Public Utility Commissioner of Oregon granted the Company a general rate increase averaging 17.7% effective for service on and after January 14, 1980.
- (b) During January 1980 the Company sold 4,000,000 additional shares of common stock for net proceeds of \$55,340,000.
- (c) During February 1980 the Company sold \$55,000,000 of 13¼% first mortgage bonds due 2000.

NOTE 11. QUARTERLY FINANCIAL DATA (UNAUDITED)

The following quarterly information is presented for 1979 and 1978. Variations in earnings information between quarters are primarily due to the seasonal nature of the Company's business.

	March 31	June 30	September 30	December 31
1979				
		(Thousands of Dollars)		
Operating revenues	\$97,679	\$81,081	\$72,224	\$98,997
Operating income	\$30,214	\$20,682	\$15,794	\$ (1,401)
Net income	\$22,729	\$17,134	\$ 9,974	\$ (3,715)
Income available for common stock ..	\$19,260	\$13,681	\$ 6,520	\$ (7,169)
Common stock				
Average shares outstanding	27,740,339	31,171,754	31,284,492	31,419,060
Earnings per share*	\$.69	\$.44	\$.21	\$ (.23)
1978				
Operating revenues	\$80,895	\$71,449	\$69,725	\$81,609
Operating income	\$30,184	\$19,029	\$19,885	\$14,141
Income before cumulative effect of change in accounting policy ...	\$20,699	\$10,388	\$12,051	\$ 5,646
Net income	\$28,544	\$10,388	\$12,051	\$ 5,646
Income available for common stock ..	\$24,990	\$ 6,847	\$ 8,511	\$ 2,106
Common stock				
Average shares outstanding	22,285,373	24,676,933	25,898,094	25,979,510
Earnings per share*	\$1.12**	\$.28	\$.33	\$.08

*As a result of dilutive effect of shares issued during the period, quarterly earnings per share cannot be added to arrive at annual earnings per share.

**Includes the effect of the change in accounting policy relating to the recording of unbilled revenues (\$.35 per share).

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Board of Directors and Stockholders of Portland General Electric Company:

We have examined the consolidated balance sheets and statements of capitalization of Portland General Electric Company (an Oregon corporation) and subsidiaries as of December 31, 1979 and 1978, and the related consolidated statements of income, retained earnings and changes in financial position for each of the five years ended December 31, 1979. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the financial position of Portland General Electric Company and subsidiaries as of December 31, 1979 and 1978 and the results of their operations and the changes in their financial position for each of the five years ended December 31, 1979 in conformity with generally accepted accounting principles, which, except for the change (with which we concur) in the method of recording revenues as described in Note 1 (Revenues), have been applied on a consistent basis.

Portland, Oregon,
February 15, 1980.

Arthur Andersen & Co.

Supplementary Information to Disclose the Effects of Changing Prices (Unaudited)

Financial statements presented in accordance with generally accepted accounting principles report historical costs which do not reflect the changing value of the dollar which occurs during periods of rapidly changing prices. Accordingly, such statements do not adequately measure the impact of inflation on business enterprises. In recognizing the need to assist readers of financial statements in assessing that impact, selected information on the effects of changing prices is presented.

Two methods of measuring the effects of changing prices are presented in the tables.

The first method provides data which has been adjusted for general price changes by using the Consumer Price Index for all Urban Consumers as a broad based measure of general inflationary effects. This method provides financial information in dollars of equivalent value (constant dollars).

The second method provides data reflecting the effects of changes in specific prices (current costs) by indexing the existing plant using the Handy-Whitman Index of Public Utility Construction Costs. This measure reflects the current cost of replacing existing plant, rather than the historical cost. Current cost amounts differ from constant dollar amounts to the extent that specific prices have increased more or less rapidly than prices in general.

Depreciation expense is the only item of the historical income statement which has been adjusted in arriving at constant dollar and current cost amounts of income. Revenues and other amounts are considered to reflect the average price levels for the year, and accordingly have not been adjusted.

STATEMENT OF INCOME FROM OPERATIONS ADJUSTED FOR CHANGING PRICES

For The Year Ended December 31, 1979

	Conventional Historical Cost	Constant Dollar Cost in Average 1979 Dollars	Current Dollar Cost in Average 1979 Dollars
	(Thousands of Dollars)		
Operating revenues	\$349,981	\$349,981	\$349,981
Purchased power and production	144,633	144,633	144,633
Other operating and maintenance expenses	94,117	94,117	94,117
Depreciation expense	33,842	58,000	66,000
Income tax expense	12,300	12,300	12,300
Interest expense	80,452	80,452	80,452
Allowance for funds used during construction	(60,015)	(60,015)	(60,015)
Other income	(1,270)	(1,270)	(1,270)
	<u>303,859</u>	<u>328,217</u>	<u>336,217</u>
Income (excluding reduction to net recoverable cost)	<u>\$46,122</u>	<u>\$21,764*</u>	<u>\$13,764</u>
Increase in specific prices (current cost) of plant, held during the year			\$233,000
Reduction to net recoverable cost		\$(173,000)	(51,000)
Effect of increase in general price level ...			<u>(347,000)</u>
Excess of increase in general price level over increase in specific prices (after reduction to net recoverable cost)			(165,000)
Gain from decline in the dollar's purchasing power on net amounts owed		134,000	134,000
Net		<u>\$(39,000)</u>	<u>\$(31,000)</u>

*Including the reduction to net recoverable cost, the loss from operations on a constant dollar basis would have been \$(151,236,000).

†At December 31, 1979, current cost of electric utility plant, net of accumulated depreciation, was \$2,960,000,000 while historical cost (net cost recoverable through depreciation) was \$1,658,797,000.

Depreciation was determined by applying the Company's actual depreciation rates to the corresponding constant dollar and current cost plant amounts.

No adjustments have been made to the income tax expense, to reduce the complexity of the supplementary information.

Under Public Utility Commissioner of Oregon (PUC) regulations, only the historical cost of plant is recoverable in revenues as depreciation. To reflect this limitation the current cost and constant dollar cost of plant which is not presently recoverable in rates as depreciation is shown as a "reduction to net recoverable cost".

To properly reflect the economics of PUC regulation, the reduction to net recoverable cost should be offset by the "gain from decline in the dollar's purchasing power on net amounts owed". Since only the historic cost of depreciation is recoverable, present depreciation provisions are inadequate to maintain the cash flows needed to replace plant. However this factor is offset by debt which will be repaid in dollars having less purchasing power. The "gain from decline in the dollar's purchasing power on net amounts owed" is primarily attributable to the substantial amount of debt which has been used to finance plant.

The following information should be viewed as an approximation rather than as a precise measure of changing prices.

SELECTED FINANCIAL DATA ADJUSTED FOR CHANGING PRICES

For The Years Ended December 31,	1979	1978	1977	1976	1975
	(Thousands of Average 1979 Dollars)				
Operating revenues	\$349,981	\$337,869	\$303,130	\$277,694	\$242,676
Historical Cost Information Adjusted for General Inflation (Constant Dollar Information)					
Income from operations	\$21,764				
Income per common share after preferred dividend requirement	\$.26				
Net assets at year end	\$522,000				
Historical Cost Information Adjusted for Changes in Specific Prices (Current Cost Information)					
Income from operations	\$13,764				
Income per common share after preferred dividend requirement	0				
Excess of increase in general price level over increase in specific prices (after reduction to net recoverable cost)	\$(165,000)				
Net assets at year end	\$522,000				
General Information					
Gain from decline in the dollar's purchasing power on net amounts owed	\$134,000				
Cash dividends declared per common share	\$1.70	\$1.89	\$2.04	\$2.09	\$2.13
Market price per common share at year end	\$12.29	\$17.95	\$22.63	\$25.41	\$21.57
Average Consumer Price Index	217.4	195.4	181.5	170.5	161.2

Portland General Electric Company and Subsidiaries Eleven-Year Summary

	1979	1978
SALES AND CUSTOMERS		
Kilowatt-Hours Sold (millions)		
Residential	5,731	5,365
Commercial	3,711	3,403
Industrial	3,585	3,251
Miscellaneous	112	113
Sales for resale	513	1,173
Total	13,652	13,305
Operating Revenues (thousands)		
Residential	\$159,135	\$143,829
Commercial	96,462	77,000
Industrial	72,839	52,662
Miscellaneous	9,414	12,107
Sales for resale	12,131	18,080
Total	\$349,981	\$303,678
Average price per kwh (sales to ultimate customers)	2.54 ^f	2.30 ^f
Customers (at year end)		
Residential	423,389	407,056
Commercial	54,029	52,107
Industrial	184	187
Miscellaneous	1,367	1,347
Sales for resale	2	1
Total	478,971	460,698
Residential Service (average per customer)		
Annual use (kilowatt-hours)	13,814	13,459
Annual revenue	\$383.54	\$360.81
Price per kilowatt-hour	2.78 ^f	2.68 ^f
ELECTRIC OPERATIONS		
Kilowatt-Hour Output (millions)		
Generated (net)—hydro	2,285	2,313
Generated (net)—thermal	4,523	1,307
Purchased—primarily hydro	7,754	10,819
Total	14,562	14,439
Losses and company use	910	1,134
Total Sales	13,652	13,305
Average Cost per Kwh		
Generated (exclusive of fixed costs)	1.12 ^f	.78 ^f
Purchased97 ^f	.71 ^f
UTILITY PLANT		
Gross Additions (thousands)	\$254,289	\$278,265
Net Plant (thousands)	\$1,658,797	\$1,482,862
STOCKHOLDERS' EQUITY AND LONG-TERM DEBT (December 31)		
Common Stock Equity (thousands)	\$551,612	\$478,759
Book value per share	\$17.55	\$18.42
Dividends paid per share	\$1.70	\$1.70
Average shares outstanding	30,403,911	24,709,977
Earnings per share	\$1.06	\$1.72
Preferred Stock Equity (thousands)	\$150,000	\$151,500
Dividend requirement (thousands)	\$13,830	\$14,175
Embedded cost	9.1%	9.2%
Long-Term Debt (thousands)	\$754,441	\$735,119
Interest on debt (thousands)	\$70,326	\$58,206
Embedded cost	9.3%	9.2%
EMPLOYEE DATA		
Number of Employees (December 31)	2,789	2,579
Operating Payroll (thousands)	\$37,105	\$31,631
Construction and Other Payroll (thousands)	\$25,183	\$21,293

1977	1976	1975	1974	1973	1972	1971	1970	1969
5,120	5,024	4,982	4,700	4,685	4,624	4,414	4,023	3,895
3,175	3,045	3,169	2,632	2,649	2,509	2,235	2,086	1,941
3,486	3,439	2,699	3,364	3,285	3,135	2,788	2,524	2,340
109	107	104	106	113	119	134	141	137
44	394	530	600	829	1,781	1,391	930	1,251
11,934	12,009	11,484	11,402	11,561	12,168	10,962	9,704	9,564
\$130,052	\$109,571	\$ 88,351	\$ 73,124	\$ 63,007	\$ 57,142	\$ 54,249	\$ 45,206	\$ 43,595
64,695	56,027	53,628	41,881	36,691	31,983	29,155	25,192	23,669
47,721	39,654	24,504	20,888	16,806	14,294	13,106	11,070	10,163
6,996	7,073	8,898	6,970	5,235	5,444	5,639	4,933	4,625
3,609	5,462	4,561	3,138	3,094	3,580	2,770	1,889	2,486
\$253,073	\$217,787	\$179,942	\$146,001	\$124,833	\$112,443	\$104,919	\$ 88,290	\$ 84,538
2.08 ^f	1.80 ^f	1.55 ^f	1.29 ^f	1.11 ^f	1.02 ^f	1.04 ^f	.96 ^f	.97 ^f
389,700	371,315	358,438	347,671	338,188	323,729	318,132	304,504	295,003
49,883	47,071	45,547	44,143	41,521	40,373	38,076	36,919	36,040
192	192	187	199	188	186	164	147	149
1,444	1,367	1,370	1,397	1,047	1,125	1,906	1,949	1,947
2	3	3	1	5	2	1	1	2
441,221	419,948	405,545	393,411	380,949	365,415	358,279	343,520	333,141
13,455	13,787	14,139	13,733	14,144	14,334	14,197	13,427	13,472
\$341.76	\$300.68	\$250.74	\$213.67	\$190.22	\$177.14	\$174.49	\$150.87	\$150.78
2.54 ^f	2.18 ^f	1.77 ^f	1.56 ^f	1.34 ^f	1.24 ^f	1.23 ^f	1.12 ^f	1.12 ^f
2,114	2,537	2,693	2,753	2,282	2,779	2,685	2,402	2,354
4,675	1,147	170	152	328	—	—	—	—
5,936	9,214	9,613	9,465	9,806	10,463	9,265	8,189	8,012
12,725	12,898	12,476	12,370	12,416	13,242	11,950	10,591	10,366
791	889	992	968	855	1,074	988	887	802
11,934	12,009	11,484	11,402	11,561	12,168	10,962	9,704	9,564
.52 ^f	.46 ^f	.33 ^f	.39 ^f	.25 ^f	.10 ^f	.12 ^f	.08 ^f	.08 ^f
.68 ^f	.34 ^f	.43 ^f	.28 ^f	.31 ^f	.24 ^f	.24 ^f	.24 ^f	.24 ^f
\$201,896	\$191,475	\$182,513	\$153,580	\$152,198	\$110,431	\$50,298	\$34,555	\$26,009
\$1,245,532	\$1,088,253	\$946,165	\$785,312	\$668,336	\$529,724	\$430,474	\$390,588	\$364,148
\$410,323	\$361,070	\$283,938	\$241,965	\$187,746	\$182,823	\$157,052	\$132,579	\$118,434
\$18.45	\$18.94	\$18.32	\$17.92	\$17.88	\$17.41	\$16.53	\$15.60	\$14.99
\$1.685	\$1.625	\$1.565	\$1.51	\$1.465	\$1.41	\$1.36	\$1.28	\$1.195
21,414,344	17,687,431	14,333,333	12,125,000	10,500,000	9,666,667	8,666,667	8,350,000	7,900,000
\$1.09	\$2.27	\$2.52	\$2.17	\$2.04	\$2.11	\$2.00	\$1.63	\$1.79
\$154,500	\$130,500	\$108,500	\$80,000	\$80,000	\$40,000	\$10,000	\$10,000	—
\$13,657	\$11,812	\$9,818	\$6,577	\$5,247	\$2,196	\$976	\$152	—
9.2%	9.3%	9.1%	8.2%	8.2%	8.4%	9.8%	9.8%	—
\$656,724	\$533,450	\$444,991	\$335,344	\$326,403	\$277,669	\$261,529	\$244,178	\$207,110
\$48,528	\$40,711	\$28,519	\$20,734	\$18,591	\$15,132	\$13,667	\$11,377	\$9,903
8.3%	8.0%	8.1%	6.3%	6.2%	5.8%	5.6%	5.4%	4.7%
2,441	2,311	2,116	2,008	1,881	1,767	1,704	1,604	1,502
\$27,808	\$22,798	\$18,498	\$15,703	\$13,982	\$12,879	\$12,151	\$10,746	\$9,925
\$19,647	\$18,564	\$18,033	\$14,493	\$12,117	\$10,039	\$8,748	\$7,443	\$6,575

Portland General Electric Company Market and Dividend Information

COMMON STOCK

The Company's common stock is principally traded on the New York Stock Exchange. The following table shows the high and low sales prices of the common stock on the composite tape (as reported by *The Wall Street Journal*) during the respective periods.

Quarter	1979				1978			
	1st	2nd	3rd	4th	1st	2nd	3rd	4th
High	18 $\frac{3}{4}$	17 $\frac{7}{8}$	17 $\frac{3}{8}$	16 $\frac{1}{4}$	20 $\frac{3}{8}$	19 $\frac{7}{8}$	19 $\frac{5}{8}$	19 $\frac{1}{4}$
Low	16 $\frac{3}{4}$	16 $\frac{1}{8}$	15	13	18 $\frac{7}{8}$	18	18 $\frac{3}{8}$	16 $\frac{1}{2}$

Quarterly cash dividends paid per share were at the rate of 42 $\frac{1}{2}$ ¢ (January, April, July and October of 1978 and 1979).

PREFERRED STOCK

The 11.50% and \$2.60 series of preferred stock are listed on the New York Stock Exchange. The following table shows the high and low sales prices of these two series on the composite tape (as reported by *The Wall Street Journal*) for the respective periods. The remaining five series are traded infrequently over the counter and disclosure of quarterly price ranges is not meaningful.

Quarter	1979				1978			
	1st	2nd	3rd	4th	1st	2nd	3rd	4th
\$2.60 High	25 $\frac{1}{2}$	25	25	23 $\frac{3}{4}$	28 $\frac{1}{4}$	28	28	26 $\frac{5}{8}$
Low	23 $\frac{3}{4}$	23 $\frac{1}{2}$	23	19 $\frac{1}{4}$	27	26 $\frac{1}{2}$	26	23 $\frac{5}{8}$
11.50% High	106 $\frac{3}{4}$	104 $\frac{3}{4}$	103	100 $\frac{1}{4}$	111 $\frac{1}{2}$	109 $\frac{1}{4}$	110 $\frac{1}{4}$	107 $\frac{3}{4}$
Low	100 $\frac{1}{4}$	100 $\frac{1}{4}$	100	90 $\frac{1}{4}$	108	105 $\frac{1}{4}$	105	99 $\frac{3}{4}$

Quarterly cash dividends were paid on each class of the Company's preferred stock at its stated rate during 1978 and 1979.

TRANSFER AGENT and REGISTRAR

COMMON STOCK and PREFERRED STOCK
United States National Bank of Oregon
Stock Transfer Department
P.O. Box 3850
Portland, OR 97208
503-225-6474

Portland General Electric Company (Home Office)
121 S.W. Salmon Street
Portland, OR 97204
503-226-8333

NEW YORK STOCK EXCHANGE

Trading Symbol: PGN

A copy of Form 10-K including the financial statements and the schedules thereto is available without charge upon written request to Gavin F. Fale, Assistant Vice President—Finance, at the address below:

PORTLAND GENERAL
ELECTRIC COMPANY
121 S.W. Salmon Street,
Portland, Oregon 97204

SENIOR OFFICERS

BOARD OF DIRECTORS

Director since

Frank M. Warren
Chairman of the Board
& Chief Executive Officer

Robert H. Short
President

Joseph L. Williams
Executive Vice President

Glen E. Bredemeier
Vice President—Power
Operations

James W. Durham
Vice President, General Counsel
and Secretary

Ken L. Harrison
Vice President—Finance
and Chief Financial Officer

Douglas E. Heider
Vice President—Public Affairs

Charles L. Heinrich
Vice President—Regulation,
Data Services

William June
Vice President—Corporate
Planning

William J. Lindblad
Vice President—Engineering/
Construction

Estes Snedecor
Vice President—Administration

F. D. Wieden
Vice President—Public Relations

E. F. Wildfong
Vice President—Division
Operations

James N. Woodcock
Vice President and Treasurer

James L. Staines
Controller

Warren W. Braley 1957
Partner, Braley & Graham, Portland—Buick and Opel automobile dealer

William E. Love 1977
Chairman and Chief Executive Officer,
Equitable Savings & Loan Association, Portland

Ernest H. Miller 1963
President, Mortgage Bancorporation, Salem—real estate loans and
investments throughout Oregon

Wade Newbegin* 1948
President and Chairman of the Board, R. M. Wade & Co., Portland—
manufacturer and distributor of pumping, farm and irrigation equipment

Robert W. Roth 1972
President and Chief Executive Officer, Jantzen Inc., Portland, a wholly owned
subsidiary of Blue Bell, Inc.—manufacturer of sportswear and swimwear

John L. Schwabe 1977
Partner, Schwabe, Williamson, Wyatt, Moore and Roberts
Portland—attorneys

Robert H. Short 1971
President, Portland General Electric Company, Portland—electric utility

Eberly Thompson 1960
Portland—personal investments

W. T. Triplett, Jr. 1969
Formerly President and Chief Executive Officer, Bazar, Inc., Portland

James J. Walton 1948
Consulting civil engineer, retired, Salem

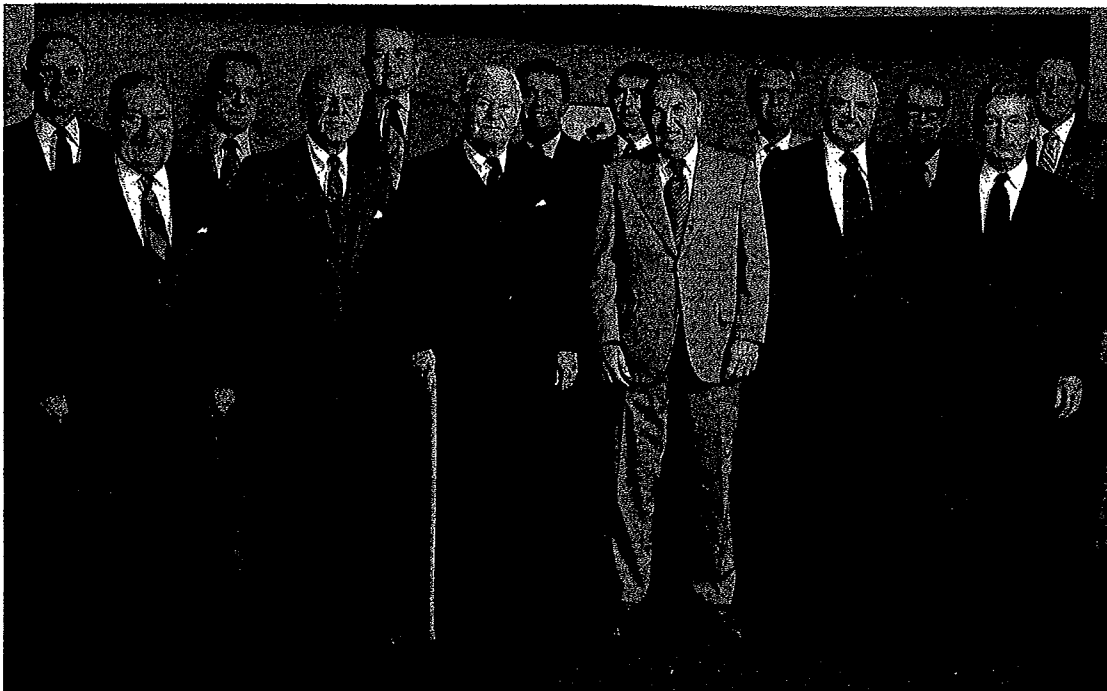
Earl Wantland 1973
President and Chief Executive Officer, Tektronix, Inc., Beaverton—
manufacturer of electronic equipment

Frank M. Warren 1949
Chairman of the Board and Chief Executive Officer,
Portland General Electric Company, Portland—electric utility

William W. Wessinger 1968
Chairman of the Board, Bliz-Weinhard Company, Portland,
a wholly owned subsidiary of Pabst Brewing Co.

Robert J. Wilhelm 1973
President, Wilhelm Trucking Co., Portland—trucking and warehousing

Ralph E. Williams 1963
President, Williams Investment Co., Portland—personal investments



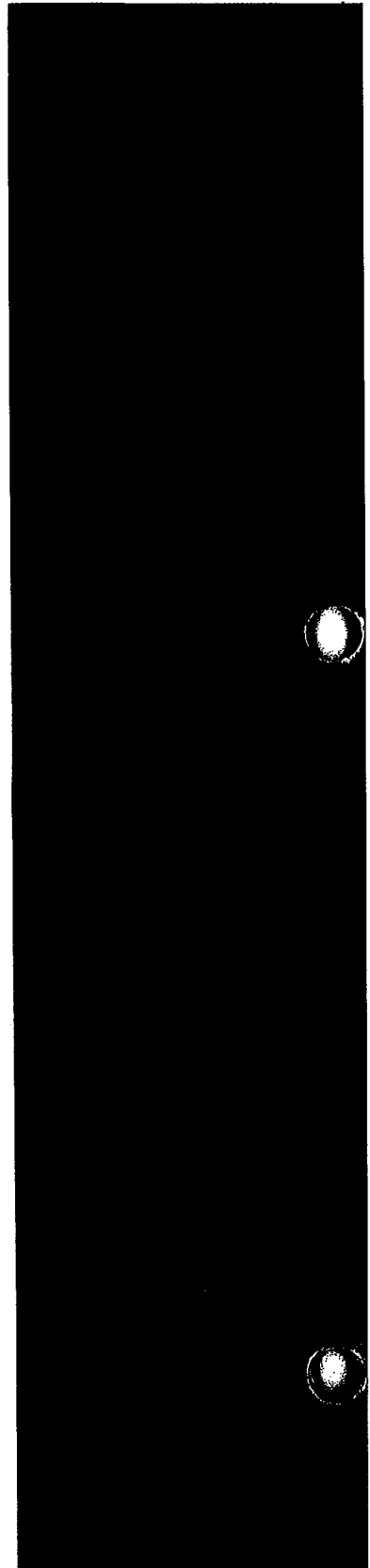
Board of Directors,
back row, left to right:
F.M. Warren, J. L. Schwabe,
R.W. Roth, W.E. Love,
E. Wantland, R.H. Short,
R.E. Williams and E.H. Miller.

Front row, left to right:
J.J. Walton, W.W. Braley,
E. Thompson,
W.T. Triplett, Jr.,
W.W. Wessinger, and
R.J. Wilhelm.
Not shown is W. Newbegin,
Advisory Director.

*Mr. Newbegin transferred to
Advisory Director status in
September 1979 and
continues to provide the
Company valuable counsel
and service in his new
capacity.



121 S.W. SALMON STREET/PORTLAND, OR 97204



**REVIEW OF FEDERAL TAX RETURNS FOR
ENRON CORPORATION & SUBSIDIARIES
IN ORDER TO ASSESS THE ADEQUACY OF
OREGON EXCISE TAX FILINGS FOR
PORTLAND GENERAL ELECTRIC CORPORATION
1997 through 2003**

Prepared for: City of Portland

Prepared by: MOSS ADAMS LLP

Dated: April 14, 2008

Moss Adams LLP ("Moss Adams," "we," "us," or "our") has been retained by the City of Portland ("City") to offer comments on reported zero excise/income tax liabilities to the State of Oregon by Portland General Electric Corporation ("PGE") for the years 1997 through 2003. Moss Adams has also been retained to offer suggestions for alternative ways the State of Oregon may tax corporate taxpayers such as PGE in the future.

As agreed, we are available to discuss these findings with you privately, with you and PGE, and/or in public hearing.

Limited Scope of this Engagement

This engagement is limited to tax consultation only. We understand that the City is also looking at broader questions for the same period relating to other aspects of the operation of PGE, such as the mechanics of rate setting by such organizations as the Oregon Public Utility Commission ("PUC"). These other matters are beyond the scope of this engagement.

Access to Documents and Records

The information we had access to for purposes of fulfilling this engagement is limited. The documents we have relied upon have been supplied to us through the City, as described below. We have not performed any procedures to verify the authenticity of these documents.

On September 21, 2005 the City Council passed Resolution No. 36337, which directed the City Attorney to request information and documents from PGE regarding income taxes collected from rate payers and debts owed by Enron to PGE. PGE provided information to the City on October 12 and again on November 1 of 2005.

The information supplied by PGE was provided to Moss Adams. The documents included Affiliated Interest Reports, Rate Making History of the Trojan Nuclear Plant, PUC Rate Setting Schedules, Rate Schedules, Proof of Claims from Bankruptcy Court, Annual Results of Operations Reports to PUC 1997 through 2004, and 10-K Filings with the Securities and Exchange Commission for the same period.

The information received also included schedules of tax payments made by PGE to the Internal Revenue Service for income taxes and to the Oregon Department of Revenue for income/excise taxes, both for the years 1997 through 2004 (your notation "Attachments 003-A and 007-A").

The City requested additional information, but PGE brought suit in Multnomah County Circuit Court, Case No. 0604-04242, against the City and the State of Oregon to block the related subpoena. The case went to mediation, and PGE subsequently provided additional information to the City, and promised additional records to be made available to a consultant retained by the

City on condition that the consultant sign a confidentiality agreement stipulated by PGE and the City.

Moss Adams has not signed the Confidentiality Agreement and as a result has not received any of the PGE records conditioned by that agreement.

By our own research we located a report prepared by the staff of the Joint Committee on Taxation, which investigated certain federal tax issues raised by the collapse of Enron.¹

Beside the records mentioned above, Moss Adams has been provided electronic copies of federal consolidated corporate income tax returns for Enron and subsidiaries for the years 1997 through 2003. These were provided to us by the City. It is our understanding that the City obtained these documents from another consultant to the City – Robert McCullough – who found them in discovery of documents related to a Federal Energy Regulatory Commission adversarial proceeding against Enron in January 2007.

It is likely that additional federal tax filings were made by Enron and/or PGE during these years. Additionally, there may be amended returns we do not have or changes made to the returns by governmental agencies, such as the Internal Revenue Service. There may have been a “short-period” 1997 return filed by the PGE consolidated group for the first six months of that year before they became an affiliated member of the Enron consolidated group. Also, PGE and its subsidiaries were apparently disaffiliated from the consolidated Enron group in May 2001 and then re-affiliated in December 2002. This suggests that separate returns were filed for the PGE group – one for 2001 and another for 2002 – in addition to the inclusion of PGE and its subsidiaries in the Enron consolidated returns for those years. Moss Adams has not seen or reviewed these likely additional filings, nor have we seen any Oregon tax filings for Enron and/or PGE.

As Agreed, a draft of this report was provided to the City approximately a month before it was finalized. In turn, the City provided a copy to PGE for any comments they might have. PGE’s written comments are attached to this final report as Exhibit C. Included as part of this Exhibit are additional comments from Moss Adams in response to the PGE letter.

Professional Code of Conduct

Moss Adams is a firm of certified public accountants. Our licensure is state by state. There is no national licensure. There is a code of professional conduct we are bound by for this work under Oregon law.

One such rule is contained at OAR 801-030-0015, titled “Confidential client information”. This rule prohibits licensees from voluntarily disclosing information obtained from a client without prior consent. Moss Adams does not believe PGE is or ever has been a client of our Firm. The

¹REPORT OF INVESTIGATION OF ENRON CORPORATION AND RELATED ENTITIES REGARDING FEDERAL TAX AND COMPENSATION ISSUES, AND POLICY RECOMMENDATIONS, VOLUME I: REPORT, Prepared by the Staff of the JOINT COMMITTEE ON TAXATION, At the request of Senator Max Baucus and Senator Charles E. Grassley of the SENATE COMMITTEE ON FINANCE (May 2003) See pages 265-273

information we discuss herein was obtained from public records and from the City. We do not believe this engagement violates this rule.

Another rule is contained at OAR 801-030-0005 (2), titled "Integrity and Objectivity". This rule requires that licensees be free of conflicts of interest when providing professional services. This can happen, for example, when two adversarial clients are both relying on our advice. We do not view our work in this engagement as being in violation of this rule because we only have one client here, the City. Again, we do not believe we have any kind of client relationship with PGE, nor do we know of any reason why PGE would expect us to be an advocate for their interests in this matter.

Another rule contained in this same OAR requires that licensees maintain objectivity in their work. Moss Adams is the outside CPA firm responsible for auditing the City's financial statements, and we have been in this role for several years. The City is a significant attest client of Moss Adams. However, the City has not attempted to influence the outcome of our findings. The City seems indifferent to the outcome, as are we. The City's goal in this matter does not seem to be financial, but instead to be *amicus curiae* to the ratepayer/customers of PGE, who are also citizens of the city of Portland. Accordingly, we do not view our services as lacking objectivity in this matter.

Finally, there is a rule to be independent of the clients we do attest work for. In Oregon this rule is contained in OAR 801-030-005 (1), titled "Independence." There are other regulatory bodies that set similar but different independence standards for the attest work CPA's perform, as well. We do not believe this engagement impairs our independence for the City's audit under any of the promulgated independence standards, including Government Audit Standards. The action the City might take as a result of our findings in this matter, if any, will not affect the audit work we are separately engaged to perform. As required by these standards we have confirmed our answer with appropriate representatives of the City prior to accepting this engagement, who have concurred with our conclusion that our independence is not impaired as a result of the performance of our work in connection with this engagement.

Summary of Facts

Based on the documents we have reviewed, it is our understanding that PGE was acquired by Enron Corporation on July 1, 1997. Income for PGE was included in the federal consolidated corporate income tax returns for Enron Corporation and Subsidiaries for the years 1997 through 2003.

Exhibit A to this report is a reconciliation of Net Income in these federal tax returns for PGE and its subsidiaries to Net Income in the corresponding SEC 10-K filings. As discussed herein, we agreed these amounts between documents, except for 1997, 2001 and 2002. We have also agreed Net Operating Income in the 10-K filings to the corresponding annual Reports of Operation by PGE made to the PUC. The Net Operating Income agreed in all years.

In the Enron consolidated federal tax return there is short-term capital gain reported of approximately \$5.6 billion from a “deemed sale” of something called the “Chiricahua Partnerships I – XIV.” This gain is included in federal consolidated taxable income of approximately \$3.1 billion for that year. This gain caused Enron to pay federal taxes of approximately \$63 million for the 2000 tax year.

In 2001, Enron caused these partnerships to be liquidated, which triggered a loss of approximately the same amount. Approximately \$1.5 billion of the loss was offset against other capital gains and thereby included in the federal consolidated taxable loss of approximately \$4.6 billion for that year. Approximately \$3.9 billion of the loss was excluded from the current year taxable loss and carried forward separately as a capital loss carryover.

According to the Joint Committee report, these partnerships were used, in part, to recognize gain for federal tax purposes “to close out IRS audit examinations on back years from which there were loss carryovers and believed that to do so they needed to trigger enough gain so that there was a tax liability for 2000”. Within Enron this tax play was known as “Project NOLy”. It utilized the constructive sale rules of IRC Section 1259 by segregating the gain portion of existing financial contracts into partnerships.

Disclosure in the 2002 federal tax return indicates that Enron Corporation contributed 100 percent of the outstanding stock of PGE to a newly formed partnership (no connection to the partnerships used in Project NOLy) on May 7, 2001 for financing reasons. The disclosure states that the financing strategy was later abandoned because Enron Corporation filed for U.S. bankruptcy protection in December 2001. The disclosure finally explains that the partnership distributed the PGE stock back to Enron Corporation with the bankruptcy court’s permission on December 24, 2002. The six subsidiaries of PGE were included as part of these two transfers.

The disclosure also indicates that PGE and its subsidiaries computed an overall taxable loss of \$14,104,863 for the period May 8, 2001 through December 31, 2001. It also indicates that the taxable income for the same group for the period January 1, 2002 through December 23, 2002 was entirely offset by federal net operating loss (“NOL”) carryforwards without disclosing the amount of the excluded entity income. Likewise, for both excluded periods, we were unable to find any further breakdown of taxable income or loss among the seven corporations within the PGE subgroup.

The same 2002 disclosure indicates that a separate federal return was filed for PGE and its subsidiaries for the period January 1 through December 23, 2002. The disclosure indicates that the PGE group was in Alternative Minimum Tax (“AMT”) for that period in the amount of \$871,583. This amount is consistent, but different, with the amount of \$789,510 voluntarily reported by PGE to the City (your notation “Attachment 003-A”). This fact is consistent with the disclosure noted above that income for this period was offset with NOL carryovers for regular tax purpose, because AMT limits NOL carryovers for this alternative calculation to 90 percent of Alternative Minimum Taxable Income.

Exhibit B to this report summarizes some key numbers from the Enron consolidated returns for 1997 through 2003. The Exhibit lists federal taxable income or loss for the entire consolidated group by year and federal taxable income for PGE, excluding the six subsidiaries, for each year. Finally, using an assumed overall Oregon apportionment percentage of 10% (as noted, a different rate is assumed for some years), Exhibit B lists a computed Oregon taxable income or loss by year.

Of note in the returns is that at the consolidated level the Enron group reported federal taxable losses in the millions, and even more frequently in the billions, of dollars for all but one year, 2000. Included in those amounts was taxable income from PGE in every year.

Technical Tax Summary – Federal

Generally, each corporate entity that conducts business by collecting, or earning, any revenues during a tax year must pay tax on its taxable income, if any, and file an annual tax return.

An exception is allowed for related corporations with a common parent to file on a consolidated basis (see Internal Revenue Code (“IRC”) Section 1501). IRC Section 1502 authorizes legislative regulations, which have been issued by the Treasury Department as Income Tax Regulations, Sections 1.1502-1 through -100.

IRC Section 1504 defines the relationship that must exist between corporations to be considered part of an affiliated group eligible to file on a consolidated basis. For example, there must be a common parent, all of the corporations must generally be domestic, and ownership must be at least 80 percent control of the vote and the value to be considered affiliated.

Presently, IRC Section 172 provides that corporations may carry losses back two years and forward 20 years to offset taxable income. These rules are available to affiliated groups filing consolidated returns at the group level.

Filing a consolidated return is elective, but once elected it is mandatory. If a corporation included in a consolidated return becomes un-affiliated, it may not be included in the consolidated return for five years, even if it becomes re-affiliated sooner than that (see Section 1504(a)(3)). The Secretary of the Treasury may waive this rule. Guidance for when waiver will be granted is provided in Revenue Procedure 2002-32.

The rules for when and how to file consolidated returns is, more than anything else, about the offsetting of income and losses. Often this results in the offsetting of income of one corporation during the current year by the losses of another. Otherwise, it is about carrying losses over from different tax years to offset against consolidated taxable income in the current year.

A very large part of the Treasury regulations on consolidated returns deal with when carryover and carryback losses may be utilized where there have been changes in the status of members in the group. These rules also provide for limitations that arise at the time of the termination of an affiliation. For example, if a separate corporation has a loss before joining a consolidated group,

there are limitations on how the losses carried forward may be utilized by the consolidated group. These are generally referred to as Separate Return Limitation Year (“SRLY”) loss rules (see IRC Reg. Sec. 1.1502-21).

Conversely, the rules would apply where a member of a loss group subsequently files a return separate from the group. There are limitations for when and how these losses are available to the un-affiliated member.

Technical Tax Summary – Oregon

Generally, ORS 317 imposes its Corporation excise/income tax on each corporation doing business within Oregon.

Prior to 1985, Oregon, like California, required related corporations involved in what has been called a “unitary business” to combine the income and loss of all the corporations into a single return, and a single determination of taxable income or loss, and a single computation of tax. These corporations could be foreign or domestic. They could be in a parent-subsidiary relationship or in a brother-sister relationship. The unitary concept was viewed as a weapon to combat gamesmanship by corporate taxpayers who were using multiple entity structures to position state taxable income to low rate states and away from high rate states.

By 1984 our international trading partners (primarily England and Japan) were complaining about the difficulties of complying with the information requests by states like Oregon. At the same time the IRS was becoming more active in what is called the “transfer pricing” area of IRC Section 481 to police the same kind of gamesmanship at the international level. In that year Oregon changed its rules effective for tax years beginning after January 1, 1985.

The changes essentially eliminated the “unitary tax” in Oregon, but some of the jargon still continues in the statutes and administrative rules. Clearly, if a corporation is not filing as part of a federal consolidated group it can only file as a separate taxpayer under the post 1984 rules. And, if a consolidated federal return is filed, any unitary affiliated member must be included in the Oregon consolidated tax return and computation of tax. Provided there are no non-unitary affiliates, Oregon income before adjustments will equal federal consolidated income or loss. If multiple affiliates are doing business here, one return will satisfy the filing requirements for all of them (see ORS 317.705 through .720). The Oregon tax law provides that if there is more than one unitary business within the consolidated group they will have to be separated out. However, this would be extremely rare. All of the efforts of states like Oregon and California from the unitary tax hay-days prior to this change were to find one unitary business, not several. The language is still there, but its use is very limited. We do not have enough information to determine whether any non-unitary position was taken in Oregon by Enron and its affiliates.

If a corporation is doing business in Oregon and other states, whether filing separately or consolidated, it is required to apportion its income between Oregon and the other states. The apportionment percentage, for the years at issue, was based on a relative percentage of cumulative property, payroll and sales in Oregon to all states for all companies included in the consolidated return. This Oregon apportionment percentage is then multiplied by consolidated

income after the required Oregon specific modifications. Oregon tax is then computed from this Oregon apportioned taxable income.

Finally, there is another method of measuring taxable income for multistate taxpayers between Oregon and other states. It is an all or nothing method known as "non-business income" which is allocated to a tax home rather than apportioned, as is described above. By definition non-business income is infrequent in nature and is not a regular part of a taxpayer's trade or business. Apportionment of income and allocation of income are mutually exclusive methods. Before apportionment is applied, non-business income (if any) is excluded from the apportionment base. Oregon provides for these rules in ORS 314.625 through .645.

Tax Analysis

Most of the PGE tax returns for the years we reviewed are unremarkable. They are what one would expect given the similarity between federal and Oregon law for consolidated corporate tax reporting. In other words, it is not surprising that the consolidated group can report losses to Oregon even though its primary activity here is consistently profitable.

The 1998 year is a good example of this. The overall taxable loss was approximately \$735 million. Assuming a 10 percent apportionment rate to Oregon, a tax loss of approximately \$74 million would have been reported to Oregon for that year, notwithstanding that separate accounting (or a non-unitary PGE) would have resulted in \$217 million of reportable taxable income in Oregon for that year.

Tax year 2000 is remarkable because it is the one year of those reviewed that the Enron consolidated group reported income. In fact, they reported over \$3 billion of income on their federal return for that year. By using our same assumption of 10 percent for that year, we would expect approximately \$310 million of taxable income to be reported to Oregon, and absent loss carryovers, at a 6.6 percent tax rate, the Enron group would have a tax bill for that year of approximately \$20 million.

It is also remarkable that PGE represents it paid no tax to Oregon for the year 2000. This is possible because of NOL carryovers of prior year losses. You can see in Exhibit B that the prior year losses are approximately \$200 million, which would still leave taxable income in Oregon of approximately \$100 million and a tax liability of approximately \$6 million. It is likely that actual apportionment percentages to Oregon by the consolidated group were not the same from 1997 through 2000. To have enough NOL to cover the year 2000 taxable income to Oregon before NOLs, one of several things could have happened. One possibility is that apportionment percentages were higher in the loss years than in the income year. Another is that Enron already had some activity in Oregon causing loss carryovers from prior to 1997 when Enron bought PGE. See PGE response at Exhibit C.

Another possibility is that Enron may have taken the position that these short-term capital gains were "non-business income" and therefore allocated them entirely away from the taxable base subject to tax in Oregon. We do not have enough information to determine whether a non-

business income position was taken in Oregon by Enron or whether it would have been appropriate to do so.

Tax year 2001 is remarkable because PGE and its six subsidiaries disaffiliated with the consolidated group on May 7 of that year. As it should, the Enron group included approximately \$108 million of income related to the PGE group in its consolidated return for that year, resulting in a consolidated loss of over \$4 billion. Enron should have filed a full year return in Oregon, which only reported income from PGE and subsidiaries for the short period January 1 through May 7. A separate return should have been filed for the PGE group with Oregon for the short-period May 8 through December 31. Disclosure of the disaffiliation of PGE indicates that the excluded group had a taxable loss for the remainder of 2001 of approximately \$14 million. Another remarkable item in the separate short-period of 2001 is a financial statement write-off of \$79 million for "uncollectible receivables from affiliates.". Several rules would seem to apply to preclude this loss from being deductible for tax purposes.

Tax year 2002 is remarkable because the PGE group re-affiliated with the group for the last week of the year by invoking an IRS procedure for automatic permission from the Treasury Secretary to waive the five year out rule of IRC Section 1504. Consistent with this waiver, Enron reported approximately \$2.7 million of income related to the PGE group for the one week period in its consolidated return. Again, the included period would be part of the Enron filing with Oregon for the full year, and a separate return for the PGE group should have been filed for that year for the period of January 1 through December 23. Similarly, there should have been separate returns filed for federal purposes, which we do not have.

The separate federal income tax filings for both 2001 and 2002 presented an opportunity to the PGE group to elect their own consolidated filing. If they did, they would also file on a consolidated basis for Oregon tax purposes. Otherwise, all seven corporations would need to file separate for federal purposes and determine whether an Oregon filing is required for each year. This would depend on whether or not they were actually doing business in the state at that time. We know PGE was doing business in Oregon. One way or another, PGE would have had to have made separate filings in Oregon for these two years.

Disclosure also indicates that there was income for the PGE group for the first 51 weeks of 2002, but the amount is not disclosed. Further disclosure was dismissed by the Enron in-house tax staff who put this disclosure together in satisfaction of the information required for automatic approval of the Sec. 1504 waiver as specified in Rev. Proc. 2002-32. For federal purposes it seems impossible to us that net operating losses are available to offset this income (other than the \$14 million loss for the separate year in 2001). We can see that Enron is reporting very large NOLs coming into the 2002 year, but we do not understand how any significant amount can be available to the PGE group. Reg. Sec. 1.1502-21 regulations of the consolidated group rules does provide for an allocation of unused prior year losses to a member going out of the group, but the way it works is to allocate the loss among the loss members. PGE has had income through this entire time frame. We cannot understand how any measurable amount of the consolidated NOL can be available to the separate returns of PGE in 2002. See PGE response at Exhibit C.

Likewise it should be with Oregon. These rules are incorporated by reference in OAR 150-317.476 (2).

Future Modification of Oregon Rules

We have been advised that a utility in Oregon may build some taxes, such as Oregon excise/income taxes, into the rate structure they charge their customers. The problem that arises is due to the fact that the utility makes this computation on a separate company basis for regulatory purposes, but the reporting and computation of taxes actually owed to Oregon is done on a consolidated basis as is described above.

Oregon's income tax rules are based on federal rules and then modified as considered necessary to accommodate special circumstances of the State. Although Oregon's tax rules have worked well for the past 20 years, there are clearly some modifications that could be made to address concerns raised by situations such as Enron and PGE.

For example, a possible modification to Oregon Revised Statutes (ORS) could be made to add a provision to ORS 317.710, Corporate Tax Return Requirements. Along the lines discussed herein, a new provision say "5(d)", could be added as follows:

"(d) If any corporation is subject to rate setting by the Oregon Public Utility Commission, the corporation shall not be included in a consolidated state return under paragraph (a) of this subsection. Instead the corporation will be required to file a separate return under this chapter."

The change in Oregon's tax laws would have to come through the legislative process. Or, to say it a different way, this is a political decision, and Moss Adams is making no recommendation either way. But, excluding utilities, for example, would easily fit within the statutory structure of Oregon's tax law.

Summary

With the limited information that has been made available to us, it does not appear to be unreasonable that the Enron group would have no tax liability to the state of Oregon for the years 1997 through 2003. It is also possible that PGE could have had significant tax liabilities to the State for each of those years had the company filed on a separate basis.

Based on our review we question the reported zero tax liability for the Enron consolidated group to Oregon for the year 2000. We concede that this question may simply be answered by production of additional documents for our benefit.

Notwithstanding the past, Oregon's rules for unitary filings may be modified to avoid some, or all, of these issues in the future.

Exhibit A

ENRON CORP. & SUBS.
 Portland General Electric Group of entities
 Net Book Income 1997 through 2003
 Federal Form 1120, Schedule M-1
 (000's)

Year	121 SW Salmon EIN 93-0658904	PGEC EIN 93-0256820	PG Trans Corp. EIN 93-1207722	PG Res. Dev. EIN 93-1314602	Efficiency Services EIN 93-1327689	Salmon Springs 93-1243246	WTC NW EIN 93-0986359	TOTAL	10-K
1997 (a)	302	49,832	0	N/A	N/A	N/A	(115)	50,019	126,000
1998	(265)	137,490	0	N/A	N/A	139	(280)	137,084	137,000
1999	(268)	127,891	0	N/A	N/A	162	(283)	127,502	128,000
2000	(26)	141,191	0	N/A	N/A	204	(41)	141,328	141,000
2001 (b)	1	63,699	0	0	N/A	81	(3)	63,778	23,000
2002 (c)	0	1,954	0	0	0	0	0	1,954	66,000
2003	28	57,618	0	(554)	(110)	208	3	57,193	56,000

Notes
 (a) Includes short year July 1 through December 31
 (b) Includes short year January 1 through May 7
 (c) Includes short year December 24 through December 31

ENRON CORP. & SUBS.
Federal Form 1120, Schedule M-1
Taxable Years 1997 through 2003 (000's)

Year	Consolidated Income	PGE Tax. Income	(a) Assumed Apportionment %	Oregon Apportioned Income
1997	(493,686)	96,991 (b)	5%	(24,684)
1998	(734,495)	216,569	10%	(73,450)
1999	(1,073,813)	187,977	10%	(107,381)
2000	3,107,813	262,421	10%	310,781
2001	(4,595,223)	108,081 (c)	5%	(229,761)
2002	(5,141,424)	2,476 (d)	0%	-
2003	(439,522)	155,492	10%	(43,952)

- Notes**
- (a) Apportionment is assumed to be 10% for Oregon for all years, except 1997 and 2001 (5%) and 2002 (0%).
 - (b) PGE joined the consolidated group on July 1, 1997.
 - (c) PGE included in consolidated group January 1 through May 7.
 - (d) PGE Re-affiliated as of December 24 through December 31.

Exhibit B

Exhibit C

MAR-17-2008 16:51

5034642200
FROM-Portland General Electric

5034642200

T-138 P.001/004 F-068



Portland General Electric Company
Legal Department
121 SW Salmon Street • Portland, Oregon 97204
(503) 464-8861 • Facsimile (503) 464-3200

David A. Aamodt
Associate General Counsel

RECEIVED

MAR 17 2008

City Attorneys Office

SENT VIA FACSIMILE (503) 823-3089 AND FIRST CLASS MAIL

March 17, 2008

Benjamin Walters
Senior Deputy City Attorney
Office of the City Attorney
1221 SW 4th Avenue, Room 430
Portland, OR 97204

Re: *Portland General Electric Company v. City of Portland*
MCCC Case No. 0604-04242

Dear Ben:

Thank you for your letter dated March 5, 2008, enclosing the draft version of Moss Adams' report based on publicly available information. We have reviewed the draft report and identified two issues requiring comment. I've attached these comments for your review, along with page 43 from PGE's 2000 SEC form 10-K and page 83 from PGE's 2002 SEC form 10-K.

If you or representatives for Moss Adams have any questions regarding the foregoing, please do not hesitate to contact either Lisa Kaner or myself.

Very truly yours,

David A. Aamodt
Associate General Counsel

Enclosures
c: Lisa Kaner
Bob Tamlyn

Draft Report - Review of Enron Tax Returns
by Moss Adams LLP

Issue 1:

On page seven the fourth paragraph of the draft report states, in part,
"It is also remarkable that PGE represents it paid no tax to Oregon for the year 2000. This is possible because of NOL carryovers of prior year losses. You can see in Exhibit A that the prior year losses are approximately \$200 million, ..."

PGE believes that this paragraph concerns Enron's 2000 tax filing with Oregon- not PGE's. PGE was a part of the Enron consolidated tax filing in 2000 and paid taxes up to Enron. See enclosed page 43 from PGE SEC Form 10-K for the year 2000, which lists current state and local tax expense for PGE of \$17 million. The reference to Exhibit A is also incorrect. Exhibit A is PGE's net book income. We believe Moss Adams was referring to Enron's prior year losses as listed on Exhibit B and totaling approximately \$200 million for the years prior to 2000.

Issue 2:

On page eight of the report the fourth paragraph questions whether PGE used Enron NOLs from prior years to offset its taxable income for the first 51 week period in 2002 during which PGE was disaffiliated from Enron. The draft report says in the last sentence of this paragraph that,

"We cannot understand how any measurable amount of the consolidated NOL can be available to the separate returns of PGE in 2002"

PGE did not use Enron NOLs to offset its taxable income for this period. PGE had a very small amount of taxable income for this 51 week period in 2002, principally due to high power costs. As support PGE has included page 83 from 2002 SEC Form 10-K listing the relatively small amount (\$5 million) of current federal tax expense for 2002. PGE's own NOL from prior year was used to offset this 2002 taxable income, which is appropriate.

This change in the report will also affect page 9 in the second paragraph of the Summary where Moss Adams states that,

"And, for different reasons we question the use of NOL carryovers from the Enron consolidated group being available to the disaffiliated PGE filings with both the Internal Revenue Service and the Oregon Department of Revenue."

As previously mentioned, PGE did not utilize Enron NOL carryovers.

Employee Stock Ownership Plan

PGE participated in the PGH Retirement Savings Plan through June 30, 1999. On July 1, 1999, the plan merged into the Enron Savings Plan and PGE continued participation. The successor plan includes an Employee Stock Ownership Plan (ESOP). Previously matched 50% by employer contributions, employee contributions up to 6% of base pay will be matched 100% by employer contributions in the form of Enron common stock, beginning in 2001.

All Employee Stock Option Plan

Enron stock options were granted to PGE employees on December 31, 1997. The options were granted at the fair value of the stock at the date of the grant. One-third of the options vested each year in 1998, 1999, and 2000. PGE pays Enron the estimated value of the shares vesting each year. The fair value of shares vesting in both 2000 and 1999 was \$4 million. The value is calculated using the Black-Scholes option-pricing model.

Note 3 - Income Taxes

The following table shows the detail of taxes on income and the items used in computing the differences between the statutory federal income tax rate and PGE's effective tax rate (millions of dollars):

	<u>2000</u>	<u>1999</u>	<u>1998</u>
Income Tax Expense			
Currently payable			
Federal	\$ 88	\$ 78	\$ 75
State and local	<u>17</u>	<u>15</u>	<u>13</u>
	105	93	88
Deferred income taxes			
Federal	(2)	(1)	(1)
State and local	<u>-</u>	<u>2</u>	<u>(1)</u>
	(2)	1	(2)
Investment tax credit adjustments	<u>(6)</u>	<u>(4)</u>	<u>(4)</u>
	<u>\$ 97</u>	<u>\$ 90</u>	<u>\$ 82</u>
Provision Allocated to:			
Operations	\$ 94	\$ 84	\$ 81
Other income and deductions	<u>3</u>	<u>6</u>	<u>1</u>
	<u>\$ 97</u>	<u>\$ 90</u>	<u>\$ 82</u>
Effective Tax Rate Computation:			
Computed tax based on statutory federal income tax rates applied to income before income taxes	\$ 84	\$ 77	\$ 77
Flow through depreciation	6	7	4
State and local taxes - net	11	11	7
Investment tax credits	(6)	(4)	(4)
Excess deferred taxes	(1)	(1)	(1)
Other	<u>3</u>	<u>-</u>	<u>(1)</u>
	<u>\$ 97</u>	<u>\$ 90</u>	<u>\$ 82</u>
Effective tax rate	40.8%	41.3%	37.4%

Note 3 - Income Taxes

The following table shows the detail of taxes on income and the items used in computing the differences between the statutory federal income tax rate and PGE's effective tax rate (in millions):

	<u>2002</u>	<u>2001</u>	<u>2000</u>
Income Tax Expense			
Currently payable:			
Federal	\$ 5	\$ 32	\$ 88
State and local	-	3	17
	<u>5</u>	<u>35</u>	<u>105</u>
Deferred income taxes:			
Federal	46	(25)	(2)
State and local	11	(5)	-
	<u>57</u>	<u>(30)</u>	<u>(2)</u>
Investment tax credit adjustments	(4)	(3)	(6)
Total income tax expense before cumulative effect of a change in accounting principle	<u>\$ 58</u>	<u>\$ 2</u>	<u>\$ 97</u>
Provision Allocated to:			
Operations	\$ 68	\$ 38	\$ 94
Other income and deductions	(10)	(36)	3
Total income tax expense before cumulative effect of a change in accounting principle	<u>\$ 58</u>	<u>\$ 2</u>	<u>\$ 97</u>
Effective Tax Rate Computation:			
Computed tax based on statutory federal income tax rate (35%) applied to income before income taxes	\$ 44	\$ 9	\$ 84
Flow through depreciation	8	5	6
State and local taxes - net of federal tax benefit	6	(1)	11
Investment tax credits	(4)	(3)	(6)
Excess deferred taxes	(1)	(1)	(1)
Deferred tax and other adjustments	5	(7)	3
Total income tax expense before cumulative effect of a change in accounting principle	<u>\$ 58</u>	<u>\$ 2</u>	<u>\$ 97</u>
Effective tax rate	46.8%	9.1% (*)	40.8%

(*) The low effective tax rate for 2001 is primarily due to an approximate \$5 million adjustment to deferred income taxes resulting from tax audit settlements, amended tax returns and the 2000 return to provision adjustment, \$3 million in amortization of deferred investment tax credits, \$2 million in state energy tax credits (net of the federal tax effect), and a \$1 million tax effect related to non-taxable equity AFDC.

MOSS ADAMS LLP Response to PGE Comments

Included in this Exhibit is a letter from PGE, dated March 17, 2008, to the Office of the City Attorney in response to a draft of this report. Our comments are as follows.

Issue 1:

The filing of a federal consolidated tax return is a privilege. To be included, an affiliated member must sign a consent form, Form 1122, which expressly provides that the consenting subsidiary corporation agrees to be bound by the provisions of the consolidated return regulations. These regulations provide at Reg. Sec. 1.1502-6(a) provides that each member of the consolidated return will be severally liable for the consolidated tax of the entire group for any year they are included. -6(c) specifically that intercompany tax agreements are of no consequence regarding these provisions. In other words, whatever tax allocation agreement PGE had with Enron may have affected the way they reported financial information to, say the SEC, but it is no defense to tax claims the IRS may make on them for the years they were consolidated with Enron. Oregon incorporates these rules by reference to the same result.

PGE did agree to meet with Moss Adams for some limited discussions after we had time to consider their response to our draft report. Informally they told us they do not have copies of these filings from the year 2000 to share with us even if they would want to do so.

We corrected the citation to Exhibit B on draft page seven in this final report.

Issue 2:

PGE claims that they have not claimed NOL's from the Oregon Enron consolidated returns into the separate short-period year January 1, 2002, through December 31, 2002. Not in their response, but as part of the informal discussions mentioned above, we were told that there were significant adjustments between book income and taxable income for this 51 week short-period return. They identify the adjustments (in the range of \$65 million to \$70 million) to Power Cost Adjustments whereby they recognize revenues for book income sooner than they are recognized for taxable income. Based on this information Moss Adams has changed the Summary language referred to in the PGE response.

Exhibit D

JAMES B. GAFFNEY

PARTNER

Professional experience

Mr. Gaffney has been a taxpayer representative for privately owned businesses for over 20 years. He has experience in all aspects of planning, compliance, and advocacy for his client's tax matters. He was Managing Partner of the Portland Office 1996-2004.

Mr. Gaffney is a frequent speaker and writer on various tax topics. He is a past instructor in the Masters of Taxation program at Portland State University. He taught Partnership Taxation and Accounting Methods and Periods. He is the primary architect of Oregon's current income tax laws, which were enacted in 1985. He is past president of the Oregon Society of CPA's, and he is a current member of the Oregon Board of Accountancy.

Professional organizations

American Institute of Certified Public Accountants
Oregon Society of Certified Public Accountants (President 1988 – 89)
California Bar Association (Inactive)

Civic and other organizations

Oregon Board of Accountancy (2001 – Present)
Karen Gaffney Foundation (1997 – Present)
Archdiocese of Portland – Audit Committee (1996 – 2003)

Education

B.S. – University of Santa Clara (1971)
J.D. – University of Santa Clara (1975)
Instructor – Portland State University (1992 – 1997)
Masters of Taxation Program

ROB O'NEILL, CPA
STATE AND LOCAL TAX SENIOR MANAGER

Rob is a Senior Manager based in the Portland, Oregon office of Moss Adams. Rob is also the Oregon Area Practice Leader for State and Local Tax services. Rob has ten years of experience providing state and local tax advisory and compliance services to large multi-state and multinational companies in various industries. He regularly advises clients on state income/franchise tax, sales/use tax and incentives issues related to corporate expansions, acquisitions, dispositions, reorganizations and entity simplification projects. He also manages and consults on large income/franchise tax and sales/use tax compliance engagements. Throughout Rob's career he has managed several large multi-state reverse sales/use tax audits and income/franchise tax refund engagements recovering millions in overpaid taxes. Rob has also managed and delivered voluntary disclosure services and/or audit defense services in most every state. Rob is a frequent speaker at regional tax conferences and regularly contributes articles to regional and industry-specific trade journals. Rob has extensive experience in consulting on Oregon tax incentives including the Oregon Enterprise Zone incentives and Oregon BETC.

CERTIFICATE OF SERVICE

I hereby certify that on this day I served **ATTACHMENTS TO URP EXHIBIT 603 FOR INCLUSION IN THE RECORD** by mailing a copy thereof in a sealed, first-class postage prepaid envelope, addressed to each party listed below and depositing in the U.S. mail at Portland, Oregon.

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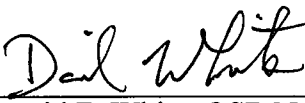
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DATED this 31st day of July, 2008.

TONKON TORP LLP

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