



Portland General Electric Company
121 SW Salmon Street • Portland, Oregon 97204
PortlandGeneral.com

January 24, 2017

e-File

PUC.filingcenter@state.or.us

Commission Filing Center
Public Utility Commission of Oregon
201 High St SE, Suite 100
PO Box 1088
Salem, OR 97308-1088

Re: UF ____ PGE Finance Application

PGE requests that the Commission assign a new docket and issue an order that will allow PGE to enter into agreements with banks to issue new letters of credit in an aggregate amount not to exceed \$60 million. The proposed letters of credit will provide collateral to counterparties and cover credit requirements for construction and decommissioning at a lower rate than under current PGE revolver facilities. PGE understands that it will be subject to a prudency review regarding any actions undertaken pursuant to this application and subsequent order.

We ask that this Application be placed for consideration at the Commission's March 7, 2017 Public Meeting, or as soon thereafter as possible. Staff has tentatively agreed to try to review and process this application in time for that meeting.

If you have any questions regarding this matter, please contact me at 503-464-7580 or Jim Warberg at 503-464-7085.

Please direct all formal correspondence and requests to the following e-mail address:
pge.opuc.filings@pgn.com.

Sincerely,

A handwritten signature in blue ink, appearing to read "Patrick G. Hager", is written over a faint, larger version of the same signature.

Patrick G. Hager
Manager, Regulatory Affairs.

cc: Christopher Liddle, PGE
James Warberg, PGE
Doug Tingey, PGE

**BEFORE THE PUBLIC UTILITY COMMISSION
OF
OREGON**

In the Matter of the Application of PORTLAND)
GENERAL ELECTRIC COMPANY for authority) APPLICATION
to enter into one or more Reimbursement)
Agreements with commercial banks for the purpose) UF-____
of issuing letters of credit up to an aggregate amount
at any one time not to exceed \$60 million

Pursuant to ORS 757.410(1), and OAR 860-027-0030, Portland General Electric Company (“PGE” or the “Applicant”) is submitting this application requesting authority to enter into Reimbursement Agreements with one or more commercial banks for the purpose of issuing letters of credit in an aggregate amount not to exceed \$60 million at any one time under such new facilities. Upon any draw under these letters of credit, PGE would be obligated under the Reimbursement Agreement to reimburse the issuing bank on demand for the amount of the draw and related bank expenses. PGE believes the transaction set forth in this application will produce the lowest cost for letters of credit for a similar type and maturity currently available to PGE.

I. Required Information Under OAR 860-027-0030:

Pursuant to the requirements of OAR 860-027-0030, PGE represents as follows:

(a) *The applicant’s exact name and address of its principal business office:* The name and address of the Applicant is Portland General Electric Company, 121 SW Salmon Street, Portland, Oregon 97204.

(b) *The state in which incorporated, the date of incorporation, and the other states in which authorized to transact utility business:* The Applicant is a corporation organized and existing under and by virtue of the laws of the State of Oregon, and the date of its incorporation is July 25, 1930. The Applicant is authorized to transact business in the states of Oregon, Idaho, Montana, Utah, and Washington and as of

February 21, 1995, is also registered as an extra provincial corporation in Alberta, Canada, but conducts utility business only in the State of Oregon.

(c) *The name and address of persons authorized, on behalf of applicant to receive notices and communications in respect to this application:* The name and address of the persons authorized on behalf of the Applicant to receive notices and communications in respect of this Application are:

PGE-OPUC Filings
Rates & Regulatory Affairs
Portland General Electric Company
121 SW Salmon Street, 1WTC-0306
Portland, OR 97204
(503) 464-8929 (telephone)
(503) 464-7651 (fax)
pge.opuc.filings@pgn.com

Doug Tingey
Associate General Counsel
Portland General Electric Company
121 SW Salmon Street, 1WTC-1301
Portland, OR 97204
(503) 464-8926 (telephone)
(503) 464-2200 (fax)
doug.tingey@pgn.com

In addition, the names and addresses to receive notices and communications via the e-mail service list are:

Chris Liddle, Assistant Treasurer
E-Mail: christopher.liddle@pgn.com

(d) As of September 30, 2016, the following are the principal officers of PGE with primary business offices located at 121 SW Salmon Street, Portland, Oregon 97204:

James J. Piro	Chief Executive Officer & President
James F. Lobdell	Senior Vice President Finance, CFO & Treasurer
William O. Nicholson	Senior Vice President
Maria M. Pope	Senior Vice President
Carol A. Dillin	Vice President
Campbell A. Henderson	Vice President & Chief Information Officer
J. Jeffrey Dudley	Vice President, General Counsel & Corporate Compliance Officer
Larry Bekkedahl	Vice President
Bradley Y. Jenkins	Vice President
Anne Mersereau	Vice President
W. David Robertson	Vice President

Kristin A. Stathis	Vice President
Kirk M. Stevens	Controller and Assistant Treasurer
Christopher Liddle	Assistant Treasurer
Marc S. Bocci	Corporate Secretary
Nora E. Arkonovich	Assistant Secretary
Karen J. Lewis	Assistant Secretary

(e) *A description of the general character of the business done, and a designation of the territories served, by counties and states:*

The Applicant is engaged in the generation, purchase, transmission, distribution, and sale of electric energy for public use in Oregon in Clackamas, Columbia, Hood River, Jefferson, Marion, Morrow, Multnomah, Polk, Sherman, Washington, and Yamhill counties.

(f) *A statement, as of the date of the balance sheet submitted with the application, showing for each class and series of capital stock: brief description; the amount authorized (face value and number of shares); the amount outstanding (exclusive of any amount held in the treasury); amount held as reacquired securities; amount pledged; amount owned by affiliated interests; and amount held in any fund:*

The following represents PGE's capital stock as of **September 30, 2016**, the date of PGE's last major SEC filing (10-K):

	<u>Outstanding</u> <u>Shares</u>	<u>Amount (\$000s)</u>
Cumulative Preferred Stock:	0	0
None authorized		
Common Stock:		
No Par Value		
(80,000,000 shares authorized):	88,926,626	\$1,198,931

None of the outstanding shares of common stock referenced above are held as reacquired securities or were pledged by the Applicant. The Vanguard Group, LLC, Blackrock Fund Advisors, and T. Rowe Price Associates, Inc., reported ownership of 8.25%, 5.40% and 4.29%, respectively, of the outstanding

PGE common stock as of September 30, 2016 in an SEC Form 13-F filing, which becomes available 45 days after the end of each quarter.

(g) *A statement, as of the date of the balance sheet submitted with the application, showing for each class and series of long-term debt and notes: brief description (amount, interest rate and maturity); amount authorized; amount outstanding (exclusive of any amount held in the treasury); amount held as reacquired securities; amount pledged; amount held by affiliated interests; and amount in sinking and other funds:*

PGE's long-term debt as of **September 30, 2016** is as follows:

Description	Authorized (\$000s)	Outstanding (\$000s)
First Mortgage Bonds:		
6.10% series due 4-15-2019	300,000	300,000
2.51% series due 1-15-2021	140,000	140,000
9.31% series due 8-11-2021	20,000	20,000
6.75% series VI due 8-1-2023	50,000	50,000
3.51% series due 11-15-2024	80,000	80,000
3.55% series due 1-15-2030	75,000	75,000
6.26% series due 5-1-2031	100,000	100,000
6.875% series due 8-1-2033	50,000	50,000
3.50% series due 5-15-2035	70,000	70,000
6.31% series due 5-1-2036	175,000	175,000
5.81% series due 10-1-2037	130,000	130,000
5.80% series due 6-1-2039	170,000	170,000
5.43% series due 5-3-40	150,000	150,000
4.74% series due 11-15-2042	105,000	105,000
4.47% series due 8-14-2043	75,000	75,000
4.47% series due 6-15-2044	150,000	150,000
4.39% series due 8-15-2045	100,000	100,000
4.44% series due 10-15-2046	100,000	100,000
4.84% series due 12-15-2048	<u>50,000</u>	<u>50,000</u>
	2,090,000	2,090,000
Pollution Control Bonds:		
City of Forsyth, MT		
5% series due 5-1-2033	97,800	97,800
Port of Morrow, OR		
5.00% series due 5-1-2033	23,600	23,600
Total Pollution Control Bonds outstanding	<u>121,400</u>	<u>121,400</u>
Other Long Term Debt:		
Term Loans		

Description	Authorized (\$000s)	Outstanding (\$000s)
5-4-2016 due 11-30-2017	50,000	50,000
6-15-2016 due 11-30-2017	<u>75,000</u>	<u>75,000</u>
	125,000	125,000
Long-Term Contracts	81	81
Unamortized Debt Discount and Other	(613)	(613)
Unamortized Debt Expense	<u>(11,293)</u>	<u>(11,293)</u>
Total Other Long-Term Debt	<u>113,175</u>	<u>113,175</u>
Total Long-Term Debt	<u>2,324,575</u>	<u>2,324,575</u>

None of the long-term debt is pledged by the Applicant or held as reacquired securities, by affiliated corporations, or in any fund, except as may be noted above.

(h) *Full description of securities proposed to be issued showing: kind and nature of securities or liabilities; amount (face value and number of shares); interest or dividend rate, if any; date of issue and date of maturity; and voting privileges, if any:*

1) Type and nature of securities

PGE proposes to enter into an application and agreement for standby letters of credit with various commercial banks. The application will permit PGE to request that the banks issue letters of credit on its behalf in an aggregate amount at any one time not to exceed \$60 million. Upon any draw under these letters of credit, PGE would be obligated under the agreement to reimburse such bank on demand for the amount of the draw and related expenses. Any such demand that is not immediately paid by PGE will accrue interest at the bank's prime lending rate plus 2% until the draw is paid in full. The letters of credit will be issued at an annual fee not to exceed 1.25% per annum on the daily amount available to be drawn under the letters of credit payable to the bank quarterly in arrears. In addition, amendments that may be required to the letters of credit from time to time will not exceed a one-time cost of \$150 per amendment. There are no upfront fees required although there will be legal fees for PGE's outside attorneys' fees and expenses and possible

reimbursement of the bank for its attorneys' fees and expenses not to exceed, in the aggregate, \$150,000. In addition, PGE may agree to reimburse or indemnify banks for costs resulting from a change of law or regulations and for liabilities, costs, claims and expenses relating to any applicable taxes. Under the agreements, PGE may reimburse banks for (a) the customary issuance and other processing fees, and other standard costs and charges of the bank computed at such rates as and in accordance with the bank's prevailing practice, relating to letters of credit as from time to time in effect and (b) all reasonable out of pocket expenses (including attorneys' fees and expenses) paid or incurred by the bank in connection with the preparation, negotiation, execution, and delivery of the application, agreement, letters of credit and any amendment or modification thereto.

2) Amount of securities

PGE expects to enter into the application and agreements with one or more banks and may subsequently direct the banks to issue separate letters of credit in an aggregate amount not to exceed \$60 million. If counterparty makes a draw under a letter of credit, PGE will be obligated to reimburse the bank for the amount drawn plus any costs. The letters of credit may be amended from time to time and the amounts increased so long as the aggregate amount of letters of credit outstanding at any one time does not exceed \$60 million.

3) Interest rate

Interest would only apply when there has been a draw under the letters of credit and PGE has not immediately reimbursed the Bank for the amount drawn. In that event, the rate of interest would accrue at an annual rate not to exceed the bank's published prime rate plus 2%.

4) Date of issuance and maturity

PGE expects to enter into applications and agreements with the banks during 2017 or 2018. The letters of credit issued under the agreements may be issued for up to one year and

may be extended by mutual agreement between the bank and PGE on any annual anniversary date.

5) *Institutional rating or, if not rated, an explanation*

No ratings are required for the agreements or the letters of credit.

(i) *A reasonably detailed and precise description of proposed transaction, including a statement of the reasons why it is desired to consummate the transaction and the anticipated effect thereof:*

(A) *Description of proposed method of issuance and selling the securities:*

See paragraph (h) above for the transaction contemplated.

(B) *Statement of whether securities are to be issued pro rata to existing holders of the applicant's securities or issued pursuant to any preemptive right or in connection with any liquidation or reorganization:*

There are no securities to be issued to existing holders of PGE's securities under this transaction and no pro rata rights associated with the transaction.

(C) *Statement showing why it is in applicant's interest to issue securities in the manner proposed and the reason(s) why it selected the proposed method of sale:*

There are no securities issued under the proposed transaction. However the annual fees and costs for the letters of credit to be issued by the bank will be less than those annual fees and costs for letters of credit issued under PGE's current revolving credit agreements.

(D) *Statement that exemption from the competitive bidding requirements of any federal or other state regulatory body has or has not been requested or obtained, and a copy of the action taken thereon when available:*

In the opinion of Applicant's legal counsel, the Applicant is not subject to the competitive bidding requirements of federal or state regulatory bodies in connection with the reimbursement

agreement or the letters of credit issued thereunder. The proposed transactions are not part of a general program.

(j) *The name and address of any person receiving or entitled to a fee for service:* Various commercial banks to be determined by the Company, will receive fees for letters of credit issued as set forth in paragraph (h) above. Attorneys for PGE will receive fees for their services in connection with representing PGE in connection with negotiating the facility. PGE may reimburse a bank for its attorney fees in connection with the facility. See paragraph (h) above.

(k) *A statement showing both in total amount and per unit the price to the public, underwriting commission and net proceeds to the applicant:*

Not applicable.

(l) *Purposes for which the securities are to be issued:*

See paragraph (h) above for the purpose of the transaction.

(m) *A statement as to whether or not any application, registration statement, etc., with respect to the transaction or any part thereof, is required to be filed with any federal or state regulatory body:*

The Federal Energy Regulatory Commission has authorized PGE to issue short-term debt up to an aggregate amount not to exceed \$900 million. No other application is required to be filed with any federal or other state regulatory body.

(n) *The facts relied upon by the application to show that the issue: is for a lawful object within the corporate purposes; is compatible with public interest; is necessary or appropriate for proper performance by application of service as a utility; will not impair its ability to perform the service; is reasonably necessary and appropriate for such purposes; and if filed under ORS 757.495, is fair and reasonable and not contrary to public interest:*

As a public utility, PGE is obligated to secure sufficient generating, transmission, and distribution

capacity to serve its customers reliably at the lowest reasonable cost. PGE believes that obtaining through one or more commercial banks the letters of credit in the manner proposed will minimize the overall capital costs associated with such public utility obligations for the reasons stated above. Therefore, the transaction proposed is for a lawful object within the corporate purposes of PGE; is compatible with the public interest; is necessary and appropriate for and consistent with the proper performance by PGE of service as a public utility; will not impair its ability to perform such service; is reasonably appropriate for such purposes; and in accordance with ORS 757.495, is fair and reasonable and not contrary to public interest. This Application is not filed under ORS 757.495.

(o) A brief statement of all rights to be a corporation, franchises, permits and contracts for consolidation, merger or lease included as assets of the applicant or any predecessor there, the amounts actually paid as consideration therefore, respectively, and the facts relied upon to show the issuance of securities for which approval is requested:

The requirements of OAR 860-027-0300 (o) are not applicable.

(p) If filed under ORS 757.490, 757.495, 759.385, or 759.390 a statement describing relationship between utility and the affiliated interest:

The requirements of OAR 860-027-0300 (p) are not applicable.

II. Required Exhibits Under OAR 860-027-0030(2)

The following exhibits are submitted and by reference made a part of this application:

EXHIBIT A. *A copy of the charter or articles of incorporation with amendments to date:* Third Amended and Restated Articles of Incorporation, effective on May 7, 2014, as previously filed in Docket **UP 310** and by reference made a part of this application.

EXHIBIT B. *A copy of the bylaws with amendments to date:* Tenth Amended and Restated Bylaws adopted May 7, 2014, and previously filed in Docket **UP-310**, and by reference made a part of this

application.

EXHIBIT C. *Copies of all resolutions of directors authorizing the proposed disposition, merger, or consolidation of facilities, mortgage or encumbrance of property, acquisition of stock, bonds, or property of another utility, in respect to which the application is made and, if approval of stockholders has been obtained, copies of the resolutions of the stockholders should also be furnished: Directors' Resolution to be filed when available.*

EXHIBIT D. *Copies of all mortgages, trust, deeds, or indentures, securing any obligation of each party to the transaction: Not applicable.*

EXHIBIT E. *Balance sheets showing booked amounts, adjustments to record the proposed transaction and pro forma, with supporting fixed capital or plant schedules in conformity with the forms in the annual report, which applicant(s) is required, or will be required, to file with the Commission: Balance sheets showing booked amounts, adjustments to record the proposed transactions and pro forma Balance sheets as of September 30, 2016 are attached. [Attached in electronic format]*

EXHIBIT F. *A statement of all known contingent liabilities, except minor items such as damage claims and similar items involving relatively small amounts, as of the date of the application, as of September 30, 2016: See Attached. [electronic format]*

EXHIBIT G. *Comparative income statements showing recorded results of operations, adjustments to record the proposed transaction and pro forma, in conformity with the form in the annual report which applicant(s) is required, or will be required, to file with the Commission. See Attached Income Statement for the 12-month period ended September 30, 2016 and pro forma. [electronic format]*

EXHIBIT H. *An analysis of surplus for the period covered by the income statements referred to in Exhibit G, as of September 30, 2016 and pro forma: See Attached Analysis of retained earnings for the 12-month period ended September 30, 2016 and pro forma. [electronic format]*

***EXHIBIT I.** A copy of registration statement proper, if any, and financial exhibits made a part thereof, filed with the Securities and Exchange Commission: Not applicable.*

***EXHIBIT J.** A copy of each proposed and of the published invitation of proposals for the purchase of underwriting of the securities to be issued; of each proposal received; and of each contract, underwriting, and other arrangement entered into for the sale or marketing of securities: Not applicable.*

***EXHIBIT K.** Copies of the stock certificates, notes, or other evidences of indebtedness proposed to be issued: Not applicable.*

WHEREFORE, the Applicant respectfully requests an Order authorizing PGE to enter into a Reimbursement Agreement with one or more banks for the purpose of issuing letters of credit up to an aggregate amount not to exceed \$60 million.

Dated this 24th day of January, 2017.

PORTLAND GENERAL ELECTRIC COMPANY


By  _____
Patrick G. Hager
Manager, Regulatory Affairs
On Behalf of Portland General Electric Company
121 SW Salmon Street, 1WTC-0306
Portland, Oregon 97204
Phone: (503) 464-7580
E-Mail: patrick.hager@pgn.com

Exhibit "F"
Statement of Contingent Liabilities
As of September 30, 2016

PGE is subject to legal, regulatory, and environmental proceedings, investigations, and claims that arise from time to time in the ordinary course of its business. Contingencies are evaluated using the best information available at the time the condensed consolidated financial statements are prepared. Legal costs incurred in connection with loss contingencies are expensed as incurred. The Company may seek regulatory recovery of certain costs that are incurred in connection with such matters, although there can be no assurance that such recovery would be granted.

Loss contingencies are accrued, and disclosed if material, when it is probable that an asset has been impaired or a liability incurred as of the financial statement date and the amount of the loss can be reasonably estimated. If a reasonable estimate of probable loss cannot be determined, a range of loss may be established, in which case the minimum amount in the range is accrued, unless some other amount within the range appears to be a better estimate.

A loss contingency will also be disclosed when it is reasonably possible that an asset has been impaired or a liability incurred if the estimate or range of potential loss is material. If a probable or reasonably possible loss cannot be reasonably estimated, then the Company: i) discloses an estimate of such loss or the range of such loss, if the Company is able to determine such an estimate; or ii) discloses that an estimate cannot be made and the reasons.

If an asset has been impaired or a liability incurred after the financial statement date, but prior to the issuance of the financial statements, the loss contingency is disclosed, if material, and the amount of any estimated loss is recorded in the subsequent reporting period.

The Company evaluates, on a quarterly basis, developments in such matters that could affect the amount of any accrual, as well as the likelihood of developments that would make a loss contingency both probable and reasonably estimable. The assessment as to whether a loss is probable or reasonably possible, and as to whether such loss or a range of such loss is estimable, often involves a series of complex judgments about future events. Management is often unable to estimate a reasonably possible loss, or a range of loss, particularly in cases in which: i) the damages sought are indeterminate or the basis for the damages claimed is not clear; ii) the proceedings are in the early stages; iii) discovery is not complete; iv) the matters involve novel or unsettled legal theories; v) significant facts are in dispute; vi) a large number of parties are represented (including circumstances in which it is uncertain how liability, if any, will be shared among multiple defendants); or vii) a wide range of potential outcomes exist. In such cases, there is considerable uncertainty regarding the timing or ultimate resolution, including any possible loss, fine, penalty, or business impact.

Carty

Construction Litigation—In 2013, the Company entered into an agreement (Construction Agreement) with its engineering, procurement and construction contractor - Abeinsa EPC LLC, Abener Construction Services,

LLC, Teyma Construction USA, LLC, and Abeinsa Abener Teyma General Partnership, an affiliate of Abengoa S.A. (collectively, the "Contractor") - for the construction of Carty.

On December 18, 2015, the Company declared the Contractor in default under the Construction Agreement and terminated the Construction Agreement. Liberty Mutual Insurance Company and Zurich American Insurance Company (hereinafter referred to collectively as the "Sureties"), have provided a performance bond of \$145.6 million (Performance Bond) under the Construction Agreement.

On January 28, 2016, the Company received notice from the International Chamber of Commerce International Court of Arbitration that Abengoa S.A. had submitted a Request for Arbitration. In the request, Abengoa S.A. alleged that the Company's termination of the Construction Agreement was wrongful and in breach of the agreement terms and does not give rise to any liability of Abengoa S.A. under the terms of a guaranty in favor of PGE and pursuant to which Abengoa S.A. agreed to guaranty certain obligations of the Contractor under the Construction Agreement. PGE disagrees with the assertions in the Request for Arbitration and on February 29, 2016 filed a Complaint and Motion for Preliminary Injunction in the U.S. District Court for the District of Oregon seeking to have the arbitration claim dismissed on the grounds that the Company has not made a demand under the Abengoa S.A. guaranty, and therefore the matter is not ripe for arbitration.

On March 28, 2016, Abengoa S.A. and several of its foreign affiliates filed petitions for recognition under Chapter 15 of the U.S. Bankruptcy Code requesting interim relief, including an injunction precluding the prosecution of any proceedings against the Chapter 15 debtors. On March 29, 2016, a number of Abengoa S.A.'s U.S. subsidiaries, including the four entities that collectively comprise the Contractor, filed voluntary petitions for relief under Chapter 11 of the U.S. Bankruptcy Code. As a result, on April 5, 2016, the U.S. District Court issued an order stating that the Company's District Court action against Abengoa S.A. was stayed. In early October 2016, the bankruptcy court in the Chapter 11 proceeding granted the Company's motion for relief from stay with respect to the four entities that collectively comprise the Contractor, which allows the Company to bring claims against such entities in the U.S. District Court. On October 21, 2016, PGE filed a complaint in the U.S. District Court for the District of Oregon against Abeinsa for failure to satisfy its obligations under the Construction Agreement. PGE is seeking damages from Abeinsa in excess of \$200 million for: i) costs incurred to complete construction of Carty, settle claims with unpaid contractors and vendors and remove liens; and ii) damages in excess of the construction costs, including a project management fee, liquidated damages under the Construction Agreement, legal fees and costs, damages due to delay of the project, warranty costs, and interest.

On March 9, 2016, the Sureties delivered a letter to the Company denying liability in whole under the Performance Bond. In the letter, the Sureties make the following assertions in support of their determination:

- that, because Abengoa S.A. has alleged that PGE wrongfully terminated the Construction Agreement, PGE must disprove such claim as a condition precedent to recovery under the Performance Bond; and
- that, irrespective of the outcome of the foregoing wrongful termination claim, the Sureties have various contractual and equitable defenses to payment and are not liable to PGE for any amount under the Performance Bond.

The Company disagrees with the foregoing assertions and, on March 23, 2016, filed a breach of contract action against the Sureties in the U.S. District Court for the District of Oregon. The Company's complaint disputes the Sureties' assertion that the Company wrongfully terminated the Construction Agreement and asserts that the Sureties are responsible for the payment of all damages sustained by PGE as a result of the Sureties' breach of contract, including damages in excess of the \$145.6 million stated amount of the Performance Bond. Such damages include additional costs incurred by PGE to complete Carty.

On April 15, 2016, the Sureties filed a motion to stay this U.S. District Court proceeding, alleging that PGE's claims should be addressed in the arbitration proceeding initiated by Abengoa S.A. and referenced above because PGE's claims are intertwined with the issues involved in such arbitration and all parties necessary to resolve PGE's claims are parties to the arbitration. PGE opposed the motion and filed a motion to enjoin the Sureties from pursuing, in the ICC arbitration proceeding, claims relating to the Performance Bond. On July 27, 2016, the court denied the Sureties' motion to stay and granted PGE's motion for a preliminary injunction. The Sureties appealed the rulings to the Ninth Circuit Court of Appeals and asked the district court to stay the district court proceedings pending resolution of the appeal. In October 2016, the district court denied the request to stay the proceedings. Briefing on the appeal to the Ninth Circuit has been completed, but no oral argument dates have been set. On October 24, 2016, the Sureties filed a motion with the Ninth Circuit for a stay of PGE's district court proceedings against the Sureties pending appeal. Briefing by the parties will proceed on this motion but no oral argument dates have been set.

Recovery of Capital Costs in Excess of \$514 million—Following termination of the Construction Agreement, PGE brought on new contractors and resumed construction. Carty was placed into service on July 29, 2016 and the Company began including its revenue requirement, based on the approved cost of \$514 million, in customer prices on August 1. Costs for Carty have exceeded the \$514 million approved for inclusion in customer prices by the OPUC. The incremental costs resulted from various matters relating to the resumption of construction activities following the termination of the Construction Agreement, including, among other things, determining the remaining scope of construction, preparing work plans for contractors, identifying new contractors, negotiating contracts, and procuring additional materials. Costs also increased as a result of PGE's discovery through the construction process of latent defects in work performed by the former Contractor and the corresponding labor and materials required to correct the work. Other items contributing to the increase include costs relating to the removal of certain liens filed on the property for goods and services provided under contracts with the former Contractor, and costs to repair equipment damage resulting from poor storage and maintenance on the part of the former Contractor.

PGE currently estimates the total cost of Carty will range from \$640 million to \$660 million, including AFDC. This cost estimate does not reflect any amounts that may be received from the Sureties pursuant to the Performance Bond. This estimate includes approximately \$15 million of lien claims filed against PGE for goods and services provided under contracts with the former Contractor. The Company believes these liens are invalid and is contesting the claims in the courts.

In the event the total project costs incurred by PGE, net of amounts that may be received from the Sureties, Abengoa S.A., or the Contractor, exceed the \$514 million amount approved by the OPUC for inclusion in customer prices, the Company intends to seek approval to recover the excess amounts in customer prices in a subsequent rate proceeding after exhausting all remedies against the aforementioned parties. However, there is no assurance that such recovery would be allowed by the OPUC. In accordance with GAAP and the Company's accounting policies, any such excess costs would be charged to expense at the time disallowance

of recovery becomes probable and a reasonable estimate of the amount of such disallowance can be made. As of the date of this report, the Company has concluded that the likelihood that a portion of the cost of Carty will be disallowed for recovery in customer prices is less than probable. Accordingly, no loss has been recorded to date related to the project.

As actual project costs for Carty exceed \$514 million, the Company is incurring a higher cost of service than what is reflected in the current authorized revenue requirement amount, primarily due to higher depreciation and interest expense. On July 29, 2016, the Company requested from the OPUC a regulatory deferral for the recovery of the revenue requirement associated with the incremental capital costs for Carty starting from its in service date to the date that such amounts are approved in a subsequent GRC proceeding. The Company has requested that the OPUC delay its review of this deferral request until the Company's claims against the Sureties have been resolved. Until such time, the effects of this higher cost of service are recognized in the Company's results of operations, as a deferral for such amounts would not be considered probable of recovery at this time, in accordance with GAAP. Any amounts approved by the OPUC for recovery under the deferral filing will be recognized in earnings in the period of such approval, however there is no assurance that such recovery would be granted by the OPUC. The Company believes that costs incurred to date and capitalized in Electric utility plant, net in the condensed consolidated balance sheet were prudently incurred. There have been no settlement discussions with regulators related to such costs.

EPA Investigation of Portland Harbor

A 1997 investigation by the United States Environmental Protection Agency (EPA) of a segment of the Willamette River known as Portland Harbor revealed significant contamination of river sediments. The EPA subsequently included Portland Harbor on the National Priority List pursuant to the federal Comprehensive Environmental Response, Compensation, and Liability Act as a federal Superfund site and listed 69 Potentially Responsible Parties (PRPs). PGE was included among the PRPs as it has historically owned or operated property near the river. In 2008, the EPA requested information from various parties, including PGE, concerning additional properties in or near the original segment of the river under investigation as well as several miles beyond. Subsequently, the EPA has listed additional PRPs, which now number over one hundred.

The Portland Harbor site remedial investigation (RI) has been completed pursuant to an Administrative Order on Consent between the EPA and several PRPs known as the Lower Willamette Group (LWG), which does not include PGE. The LWG has funded the RI and feasibility study (FS) and has stated that it has incurred \$114 million in investigation-related costs. The Company anticipates that such costs will ultimately be allocated to PRPs as a part of the allocation process for remediation costs of the EPA's preferred remedy.

The EPA has finalized the FS, along with the RI, and these documents will provide the framework for the EPA to determine a clean-up remedy for Portland Harbor that will be documented in a Record of Decision (ROD).

In June 2016, the EPA issued a proposed clean-up plan for comment. The EPA's preferred alternative set forth in the proposed plan has an estimated present value cost of \$746 million and would take approximately seven years to remediate with additional time needed for monitored natural recovery to occur. This cost estimate is approximately half of the estimate that EPA presented in November 2015 for a similar preferred alternative that had an estimated present value cost of \$1.5 billion. A substantial portion of the EPA's reduction in estimated costs relates to revised assumptions and estimates concerning the costs of various

activities. The 90-day public comment period ended September 6, 2016. The Company currently expects the EPA to issue a determination of its preferred remedy in a final ROD in late 2016 or early 2017. However, responsibility for funding and implementing the EPA's selected remedy is not expected to be determined until several years thereafter. Although PGE is participating in a voluntary process for allocation of costs, the Company does not have the ability to reasonably estimate an allocation percentage as significant uncertainties still remain surrounding facts and circumstances that are integral to determining such a percentage, such as, agreement on a final allocation methodology, and data surrounding property specific activities and history of ownership of sites within the Portland Harbor.

Where injuries to natural resources have occurred as a result of releases of hazardous substances, federal and state natural resource trustees may seek to recover for damages at such sites, which are referred to as natural resource damages. As it relates to the Portland Harbor, PGE has been participating in the Portland Harbor Natural Resource Damages assessment (NRDA) process. The EPA does not manage NRDA activities, but provides claims information and coordination support to the Natural Resource Damages (NRD) trustees. Damage assessment activities are typically conducted by a Trustee Council made up of the trustee entities for the site, and claims are not concluded until a final remedy for clean-up has been settled. The Portland Harbor NRD trustees are the National Oceanic and Atmospheric Administration, the U.S. Fish and Wildlife Service, the State of Oregon, and certain tribal entities.

After the claimed damages at a site are assessed, the NRD trustees may seek to negotiate legal settlements or take other legal actions against the parties responsible for the damages. Funds from such settlements must be used to restore injured resources and may also compensate the trustees for costs incurred in assessing the damages. The NRD trustees will assign initial NRD liability allocations to PRPs, which the Company anticipates will occur in the first half of 2017. It is uncertain what portion, if any, PGE may be held responsible related to Portland Harbor.

As discussed above, significant uncertainties still remain concerning the precise boundaries for clean-up, the assignment of responsibility for clean-up costs, the final selection of a proposed remedy by the EPA, the amount of natural resource damages, and the method of allocation of costs amongst PRPs. It is probable that PGE will share in a portion of these costs. However, the Company does not currently have sufficient information to reasonably estimate the amount, or range, of its potential costs for investigation or remediation of the Portland Harbor site and NRDA, although such costs could be material. The Company plans to seek recovery of any costs resulting from the Portland Harbor proceeding through regulatory recovery in customer prices and through claims under insurance policies.

On July 15, 2016, the Company filed a deferral application with the OPUC to allow for the deferral of the future environmental remediation costs, as well as, seek authorization to establish a regulatory cost recovery mechanism for such environmental costs. The Company is currently in discussions with OPUC Staff and other parties regarding the details of the recovery mechanism and anticipates a final decision in the first quarter of 2017. The mechanism, as proposed, would allow the Company to recover incurred environmental expenditures through a combination of third-party proceeds, such as insurance recoveries, and through customer prices, as necessary. The mechanism would establish annual prudency reviews of environmental expenditures and be subject to an annual earnings test.

Pacific Northwest Refund Proceeding

In response to the Western energy crisis of 2000-2001, the FERC initiated, beginning in 2001, a series of proceedings to determine whether refunds are warranted for bilateral sales of electricity in the Pacific Northwest wholesale spot market during the period December 25, 2000 through June 20, 2001. In an order issued in 2003, the FERC denied refunds. Various parties appealed the order to the Ninth Circuit Court of Appeals (Ninth Circuit) and, on appeal, the Ninth Circuit remanded the issue of refunds to the FERC for further consideration.

On remand, in 2011 and thereafter, the FERC issued several procedural orders that established an evidentiary hearing, defined the scope of the hearing, expanded the refund period to include January 1, 2000 through December 24, 2000 for certain types of claims, and described the burden of proof that must be met to justify abrogation of the contracts at issue and the imposition of refunds. Those orders included a finding by the FERC that the Mobile-Sierra public interest standard governs challenges to the bilateral contracts at issue in this proceeding, and the strong presumption under Mobile-Sierra that the rates charged under each contract are just and reasonable would have to be specifically overcome either by: i) a showing that a respondent had violated a contract or tariff and that the violation had a direct connection to the rate charged under the applicable contract; or ii) a showing that the contract rate at issue imposed an excessive burden or seriously harmed the public interest. The FERC also held that a market-wide remedy was not appropriate, given the bilateral contract nature of the Pacific Northwest spot markets. Refund proponents appealed these procedural orders at the Ninth Circuit. On December 17, 2015, the Ninth Circuit held that the FERC reasonably applied the Mobile-Sierra presumption to the class of contracts at issue in the proceedings and dismissed evidentiary challenges related to the scope of the proceeding. Plaintiffs on behalf of the California Energy Resources Scheduling division of the California Department of Water Resources filed a request for rehearing on February 1, 2016. By order issued April 18, 2016, the Ninth Circuit denied plaintiffs' request for panel rehearing of its decision regarding application of the Mobile-Sierra presumption.

In response to the evidence and arguments presented during the hearing, in May 2015, the FERC issued an order finding that the refund proponents had failed to meet the Mobile-Sierra burden with respect to all but one respondent. In December 2015, the FERC denied all requests for rehearing of its order. With respect to the remaining respondent, FERC ordered additional proceedings, and in an order issued October 18, 2016, rejected the California Parties' request for refunds from the respondent, finding that the California Parties had not met their Mobile-Sierra burden of proof.

The Company has settled all of the direct claims asserted against it in the proceedings for an immaterial amount. The settlements and associated FERC orders have not fully eliminated the potential for so-called "ripple claims," which have been described by the FERC as "sequential claims against a succession of sellers in a chain of purchases that are triggered if the last wholesale purchaser in the chain is entitled to a refund." Because the remaining respondent previously had stated on the record that it would not pursue ripple claims if it were required to pay refunds pursuant to the additional proceedings described above, the Acting Chief Administrative Law Judge issued an order in February 2016, holding that the issue of ripple claims is terminated for purposes of Phase II of these proceedings. Therefore, unless the current FERC orders are overturned or modified on appeal, the Company does not believe that it will incur any material loss in connection with this matter.

Management cannot predict the outcome of the various pending appeals and remands concerning this matter. If, on rehearing, appeal, or subsequent remand, the Ninth Circuit or the FERC were to reverse previous FERC rulings on liability or find that a market-wide remedy is appropriate, it is possible that additional refund claims could be asserted against the Company. However, management cannot predict, under such

circumstances, which contracts would be subject to refunds, the basis on which refunds would be ordered, or how such refunds, if any, would be calculated. Further, management cannot predict whether any current respondents, if ordered to make refunds, would pursue additional refund claims against their suppliers, and, if so, what the basis or amounts of such potential refund claims against the Company would be. Due to these uncertainties, sufficient information is currently not available to determine PGE's liability, if any, or to estimate a range of reasonably possible loss.

Trojan Investment Recovery Class Actions

In 1993, PGE closed the Trojan nuclear power plant (Trojan) and sought full recovery of, and a rate of return on, its Trojan costs in a general rate case filing with the OPUC. In 1995, the OPUC issued a general rate order that granted the Company recovery of, and a rate of return on, 87% of its remaining investment in Trojan.

Numerous challenges and appeals were subsequently filed in various state courts on the issue of the OPUC's authority under Oregon law to grant recovery of, and a return on, the Trojan investment. In 2007, following several appeals by various parties, the Oregon Court of Appeals issued an opinion that remanded the matter to the OPUC for reconsideration.

In 2008, the OPUC issued an order (2008 Order) that required PGE to provide refunds of \$33 million, including interest, which were completed in 2010. Following appeals, the 2008 Order was upheld by the Oregon Court of Appeals in February 2013 and by the Oregon Supreme Court (OSC) in October 2014.

In 2003, in two separate legal proceedings, lawsuits were filed in Marion County Circuit Court (Circuit Court) against PGE on behalf of two classes of electric service customers. The class action lawsuits seek damages totaling \$260 million, plus interest, as a result of the Company's inclusion, in prices charged to customers, of a return on its investment in Trojan.

In August 2006, the OSC issued a ruling ordering the abatement of the class action proceedings. The OSC concluded that the OPUC had primary jurisdiction to determine what, if any, remedy could be offered to PGE customers, through price reductions or refunds, for any amount of return on the Trojan investment that the Company collected in prices.

The OSC further stated that if the OPUC determined that it could provide a remedy to PGE's customers, then the class action proceedings may become moot in whole or in part. The OSC added that, if the OPUC determined that it could not provide a remedy, the court system may have a role to play. The OSC also ruled that the plaintiffs retained the right to return to the Circuit Court for disposition of whatever issues remained unresolved from the remanded OPUC proceedings. In October 2006, the Circuit Court abated the class actions in response to the ruling of the OSC.

In June 2015, based on a motion filed by PGE, the Circuit Court lifted the abatement and in July 2015, the Circuit Court heard oral argument on the Company's motion for Summary Judgment. Following oral argument on PGE's motion for summary judgment, the plaintiffs moved to amend the complaints. On February 22, 2016, the Circuit Court denied the plaintiff's motion to amend the complaint and on March 16, 2016, the Circuit Court entered a general judgment that granted the Company's motion for summary judgment and dismissed all claims by the plaintiffs. On April 14, 2016, the plaintiffs appealed the Circuit Court dismissal to the Court of Appeals for the State of Oregon.

PGE believes that the October 2, 2014 OSC decision and the recent Circuit Court decisions have reduced the risk of a loss to the Company in excess of the amounts previously recorded and discussed above. However, because the class actions remain subject to appeal, management believes that it is reasonably possible that such a loss to the Company could result. As these matters involve unsettled legal theories and have a broad range of potential outcomes, sufficient information is currently not available to determine the amount of any such loss.

Alleged Violation of Environmental Regulations at Colstrip

In 2013, the Sierra Club and the Montana Environmental Information Center (MEIC) sued the co-owners of the Colstrip Steam Electric Station (CSES), including PGE, for alleged violations of the Clean Air Act (CAA), including New Source Review, Title V, and opacity requirements, as well as other alleged violations of various environmental regulations. PGE has a 20% ownership interest in Units 3 and 4 of CSES. The plaintiffs sought civil penalties along with relief that included an injunction preventing the co-owners from operating CSES except in accordance with the CAA, the Montana State Implementation Plan, and the plant's federally enforceable air quality permits.

On July 12, 2016, the parties reached a settlement for this case in a consent decree filed in the U.S. District Court in Montana. On September 6, 2016, the judge entered the consent decree, representing final approval from the Court. Pursuant to the terms of the settlement, all claims alleging violations against the CSES owners, including PGE, have been dropped, and the owners of Colstrip Power Plant Units 1 and 2 have agreed that on or before July 1, 2022, Units 1 and 2, in which PGE has no ownership interest, shall permanently cease operations and shall not, thereafter, burn any fuel in or otherwise operate its boilers. Colstrip Units 3 and 4 are to remain operational. The Company does not anticipate that the settlement will have a material impact on the Company's ownership interest in Units 3 and 4.

Other Matters

PGE is subject to other regulatory, environmental, and legal proceedings, investigations, and claims that arise from time to time in the ordinary course of business that may result in judgments against the Company. Although management currently believes that resolution of such matters, individually and in the aggregate, will not have a material impact on its financial position, results of operations, or cash flows, these matters are subject to inherent uncertainties, and management's view of these matters may change in the future.

Portland General Electric Company and Subsidiaries
Consolidated Balance Sheet
September 30, 2016
(In Millions)

	September 30, 2016	Adjustments ⁽¹⁾	Adjusted Total
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 88		\$ 88
Accounts receivable, net	140		140
Unbilled revenues	60		60
Inventories	82		82
Regulatory assets - current	65		65
Other current assets	41		41
Total current assets	<u>476</u>	<u>-</u>	<u>476</u>
Electric utility plant	9,415		9,415
Construction work in progress	194		194
Total cost	9,609		9,609
Less: accumulated depreciation and amortization	(3,269)		(3,269)
Electric utility plant, net	<u>6,340</u>		<u>6,340</u>
Regulatory assets - noncurrent	515		515
Nuclear decommissioning trust	41		41
Non-qualified benefit plan trust	34		34
Other noncurrent assets	49		49
Total assets	<u>\$ 7,455</u>	<u>\$ -</u>	<u>\$ 7,455</u>
LIABILITIES AND EQUITY			
Current liabilities			
Accounts payable	\$ 112		\$ 112
Liabilities from price risk management activities - current	66		66
Short-term debt	-		-
Current portion of long-term debt	-		-
Accrued expenses and other current liabilities	270		270
Total current liabilities	<u>448</u>	<u>-</u>	<u>448</u>
Long-term debt, net of current portion	2,325		2,325
Regulatory liabilities - noncurrent	958		958
Deferred income taxes	644		644
Unfunded status of pension and postretirement plans	267		267
Liabilities from price risk management activities - noncurrent	163		163
Asset retirement obligations	156		156
Non-qualified benefit plan liabilities	105		105
Other noncurrent liabilities	79		79
Total liabilities	<u>\$ 5,145</u>	<u>\$ -</u>	<u>\$ 5,145</u>
Commitments and contingencies (see notes)	-		-
Equity			
Preferred stock	-		-
Common stock	1,199		1,199
Accumulated other comprehensive loss	(7)		(7)
Retained earnings	1,118		1,118
Total equity	<u>2,310</u>	<u>-</u>	<u>2,310</u>
Total liabilities and equity	<u>\$ 7,455</u>	<u>\$ -</u>	<u>\$ 7,455</u>

⁽¹⁾ Footnote not used this quarter.

Portland General Electric Company and Subsidiaries
Consolidated Statement of Income
Nine Months Ended
September 30, 2016
(In Millions)

	Nine Months Ended September 30, 2016	Adjustments	Adjusted Total
Revenues	\$1,399		\$1,399
Operating Expenses:			
Purchased power and fuel	455		455
Generation, transmission and distribution	199		199
Administrative and other	185		185
Depreciation and amortization	244		244
Taxes other than income taxes	89		89
Total operating expenses	<u>1,172</u>		<u>1,172</u>
Income from Operations	227	-	227
Other Income:			
Allowance for equity funds used during construction	19		19
Miscellaneous income, net	-		-
Other Income, net	<u>19</u>	-	<u>19</u>
Interest Expense	<u>82</u>		<u>82</u>
Income before income taxes	164	-	164
Income Taxes	<u>32</u>		<u>32</u>
Net Income	<u>\$132</u>	-	<u>\$132</u>

Portland General Electric Company and Subsidiaries
 Consolidated Statement of Retained Earnings
 Nine Months Ended
 September 30, 2016
 (In Millions)

	<u>Retained Earnings</u>	<u>Adjustments ⁽¹⁾</u>	<u>Adjusted Total</u>
Balance at Beginning of Period, January 1, 2016	\$1,070		\$1,070
Net Income	132		132
	1,202		1,202
Dividends Declared			
Common stock	(84)		(84)
Balance at End of Period, September 30, 2016	<u>\$1,118</u>	<u>\$0</u>	<u>\$1,118</u>

(1) No preliminary adjusting entries to the Statement of Retained Earnings.