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J. Jeffrey Dudley
Associate General Counsel

September 28, 2005

Via Electronic Filing and U.S. Mail

Oregon Public Utility Commission
Attention: Filing Center
PO Box 2148
Salem OR 97308-2148

Re: In the Matter of PORTLAND GENERAL ELECTRIC
Application for Authority to Issue Common Stock
OPUC Docket Nos. UF 4218/UM 1206

Attention Filing Center:

Enclosed for filing in the above-captioned docket are eight copies of the following Reply Testimony for filing in the above-referenced dockets:

Reply Testimony of James J. Piro, PGE-SFC(RDC)/400,
with Exhibits PGE-SFC(RDC)/401 through PGE-SFC(RDC)/404

Reply Testimony of Mitchell S. Taylor, PGE-SFC(RDC)/500.

This document is being filed by electronic mail with the Filing Center.

An extra copy of this cover letter is enclosed. Please date stamp the extra copy and return it to me in the envelope provided.

Thank you in advance for your assistance.

Sincerely,

JJD:am
Enclosures

cc: UF 4218 and UM 1206 Service Lists

CERTIFICATE OF SERVICE

I certify that I have caused to be served the REPLY TESTIMONY OF JAMES J. PIRO AND MITCHELL S. TAYLOR ON BEHALF OF APPLICANTS PORTLAND GENERAL ELECTRIC COMPANY AND STEPHEN FORBES COOPER, LLC, ON BEHALF OF THE RESERVE FOR DISPUTED CLAIMS, in OPUC Docket Nos. UF 4218 and UM 1206, by U.S. Mail and electronic mail, to the parties on the attached official service list from these dockets.

Dated this 28th day of September, 2005.

J. Jeffrey Dudley

UF 4218 / UM 1206
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BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UF 4218 / UM 1206

In the Matter of the Application of PORTLAND GENERAL ELECTRIC COMPANY for an Order Authorizing the Issuance of 62,500,000 Shares of New Common Stock Pursuant to ORS 757.410 et seq. **UF 4218**

and

In the Matter of the Application of STEPHEN FORBES COOPER, LLC, as Disbursing Agent, on behalf of the RESERVE FOR DISPUTED CLAIMS, for an Order Allowing the Reserve for Disputed Claims to Acquire the Power to Exercise Substantial Influence over the Affairs and Policies of Portland General Electric Company Pursuant to ORS 757.511 **UM 1206**

TESTIMONY OF

JIM PIRO

September 28, 2005

I. Introduction

Q. Please state your name, business address, and occupation.

A. My name is Jim Piro. I am the Executive Vice President Finance, Chief Financial Officer and Treasurer of Portland General Electric Company (PGE). My business address is 121 SW Salmon St, Portland, OR. My qualifications appear in the final section of my testimony.

Q. What is the purpose of your testimony?

A. I respond to the testimony of Richard W. Cuthbert, presented on behalf of the City of Portland (Exhibit COP/100).

Q. Please summarize your testimony.

A. My testimony discusses how the City of Portland's (City) objections and Mr. Cuthbert's testimony misrepresent and indicate a significant misunderstanding of the PGE stock issuance and the Stipulation[1]. I also address the questions raised by the City and Mr. Cuthbert about the Enron liabilities and explain why the City's proposed conditions are unwarranted.

Mr. Cuthbert fails to acknowledge any benefits from PGE's stock issuance.

- This transaction will allow PGE to again become a publicly traded company headquartered in Portland, with an independent board of directors.
- Once stock is issued, PGE will pay taxes directly to local, state and federal governments.

[1] The Stipulation referred to is the Stipulation dated August 31, 2005, filed in this docket by Citizens' Utility Board, Industrial Customers of Northwest Utilities, Portland General Electric Company, Enron Corp., Stephen Forbes Cooper, LLC, as Disbursing Agent, Staff of the Public Utility Commission, and Community Action Directors of Oregon and Oregon Energy Coordinators Association.

Mr. Cuthbert also neglects to address the benefits of the Stipulation, including rights of access to PGE information; access to PGE's board for consumer groups; development of enhanced direct access programs; an extension of Service Quality Measures; and the process for developing new billing accuracy measures. Instead, Mr. Cuthbert dwells on PGE potential liabilities and alleges they might overcome any benefits of the transaction and the Conditions in the Stipulation. On closer review, Mr. Cuthbert's claims are unfounded. He misunderstands the Conditions in the Stipulation. The Enron commitments from the Enron Merger Conditions are stipulated to continue for the benefit of customers. Conditions 6(a) and 6(b) of the Stipulation do not terminate as he testifies. He also makes unsubstantiated claims about PGE's financial "exposure." Although he claims that PGE owes California money, it's the other way around. In fact, California owes PGE money.

Q. How is your testimony organized?

A. I first discuss Mr. Cuthbert's incorrect view of PGE potential liabilities. A view which PGE and the Moody's and Standard and Poor's rating agencies do not share.

Second, I discuss the additional conditions Mr. Cuthbert believes must be imposed on the transaction. These additional conditions are either unnecessary or the need is unsubstantiated.

Third, I discuss PGE progress on negotiations with the City on a new franchise agreement. Both the City and PGE have put a significant effort into new franchise talks.

Finally, I provide the financial reasons why PGE's request to issue new PGE common stock is proper under ORS 757.410 et. seq. This is the UF 4218 portion of the Application.

II. Liabilities

Q. What concern did Mr. Cuthbert express regarding PGE's liabilities?

A. Mr. Cuthbert expresses the concern that the stock issuance plan would release Enron from its obligations in the 1997 merger commitments and that this could impact PGE customers. As he states in his testimony,

> "The bottom line is that the Application and its supporting testimony have failed to note or quantify the potential negative impact of Enron ownership of PGE on ratepayers and how the loss of protection from these liabilities could negatively impact PGE ratepayers before releasing Enron from its indemnity obligations under existing conditions." (COP/100 Cuthbert/13, lines 6-10)

Q. How do you respond to this concern?

A. First and foremost, this concern ignores the Stipulation in which PGE agrees to continue the Enron commitments in the 1997 merger conditions so no harm to customers will occur.

Second, the Stipulation specifies that the effect of Enron ownership on the cost of PGE debt (Cuthbert/12, line 1-3), or on any other aspect of PGE's revenue requirement, will be the subject of a complete review in PGE's next general rate filing.

Third, in Condition 16 of the Stipulation, and as the OPUC anticipated in Order No. 05-114, Enron agrees to provide PGE indemnity for Enron federal income tax and pension liabilities that will not be resolved at the time of the stock issuance. As I discuss later, these control group liabilities related to Enron ownership are either being resolved or will not be applicable once the PGE stock issuance occurs.

Q. Does Mr. Cuthbert support his claim that the transaction removes prior Enron protections? (Cuthbert/10 lines 24-25; Cuthbert 11/ lines 14-17)

A. No. Mr. Cuthbert offers no support for his assertion that approval of this transaction removes "many of the protections against manipulation by Enron imposed by prior Commission orders." Moreover, Mr. Cuthbert is incorrect that the protections transferred from Enron to PGE through Condition 6 of the Stipulation expire. (Cuthbert/20, lines 19-23) Only the requirement to maintain an additional $40 million of minimum common equity capital in Condition 6 (c) of the Stipulation expires after the conclusion of the next general rate case. The "hold harmless" Conditions continue indefinitely.

Q. One of Mr. Cuthbert's concerns is a possible debt cost increase due to Enron ownership. Does Mr. Cuthbert's discussion include all the information in UM 1121 regarding PGE's cost of debt? (Cuthbert/12, lines 1-3)

A. No. He does not address all the information PGE presented in the TPG case. In my testimony in UM 1121, I discussed how lenders determine interest rates on utility borrowings. In my sur sur-rebuttal I discussed the effect of Enron on PGE's cost of debt. I have attached the relevant portions of my UM 1121 testimony as PGE-SFC(RDC) Exhibits 401 and 402.

In summary, I testified that determining whether or not there is an impact on PGE's borrowing rates would require, at a minimum, careful study of the relevant factors. I further concluded that staff witness Thomas Morgan's belief that PGE experienced a large increase in debt expense due to Enron ownership is "not realistic." This continues to be my opinion today.

Q. Mr. Cuthbert claims that "significant liabilities associated with PGE's ownership by Enron will continue to be a factor impacting the company for many years." Is he correct?

A. No. Mr. Cuthbert appears to suggest that at least some and possibly all of the potential liabilities disclosed in PGE's 2004 Form 10-K are caused by Enron's ownership of PGE. (Cuthbert/12, lines 15-23; Cuthbert/21, lines 10-13) This is incorrect. I discuss the liabilities mentioned by Mr. Cuthbert below.

Q. Mr. Cuthbert suggests that PGE has not adequately reserved for its potential liabilities. (Cuthbert/19, lines 4-7 and 21-23) Do you agree?

A. No, I do not. PGE has adequately reserved for its liabilities, based on all available information, to the extent required and has disclosed adequately its liabilities to the public under generally accepted accounting principles and the reporting requirements of the Securities and Exchange Commission (SEC). Companies refer to potential liabilities as contingencies and disclose them in their periodic filings with the SEC, such as the SEC Form 10-K (annual) and Form 10-Q (quarterly).

PGE's Form 10-K includes financial statements that are audited by Deloitte and Touche LLP (D&T), an independent registered public accounting firm. D&T also reviews PGE's Form 10-Q. PGE filed these SEC reports prior to and during Enron's ownership of PGE and will continue to file them after the stock distribution.

Q. How does PGE determine whether it has contingencies to disclose in the periodic SEC filings?

A. Under generally accepted accounting principles, PGE must identify, record and report contingencies as required by Statement of Financial Accounting Standard (SFAS) No. 5, Accounting for Contingencies.

Q. Has PGE followed SFAS No. 5 in each of its Form 10-K and Form 10-Q filings?

A. Yes. For example, PGE's 2004 Form 10-K (fiscal year ended December 31, 2004) includes contingency disclosures such as legal and environmental matters, related party transactions, Enron Bankruptcy, etc. in its Notes to its audited financial statements which fully describe PGE's contingencies as required by SFAS No. 5. In addition, PGE's audited financial statements include accrued loss contingencies when management assesses that it is probable that an asset has been impaired or a liability has been incurred and the amount of the loss can be reasonably estimated.

Q. Are you aware of any material contingencies that meet SFAS No. 5 standards that PGE has not disclosed in its SEC filings, specifically Form 10-Ks and Form 10-Qs?

A. No, I am not.

Q. The rating agencies make public assessments of PGE and its financial strength. Do the rating agencies assess a company's contingencies in the process of rating it?

A. Yes, they do. They evaluate each company's contingencies. The rating agencies are very focused on a company's overall financial condition, including any potential impacts from the contingencies on the companies that they rate.

Q. How have the major rating agencies responded after reviewing PGE's financial position, together with all its reported contingent liabilities?

A. Moody's has rated PGE as Baa1. Standard & Poor's has recently changed the outlook on PGE from "developing" to "stable" and continued our rating of BBB+. In connection with this recent action by Standard & Poor's, they stated the return of PGE to a stand-alone utility is "a near certainty." That fact along with the continuation of strong financial ratios and position led to this strengthened rating. (PGE-SFC(RDC) Exhibit 403)

Q. You mentioned earlier that the control group liabilities, disclosed in PGE's Form 10-Ks and Form 10-Qs, were being resolved. What are the recent events related to these liabilities?

A. Those contingent items relate to potential liabilities due to PGE being part of the Enron control group. These potential liabilities related to a) Enron's pension plan; b) Enron's retiree health benefits; and c) Enron income tax payments.

a) With regard to Enron's pension plan, the judges in both the Bankruptcy Court and the Federal District Court hearing a class action on pension and ERISA claims have approved a settlement. This settlement as approved removes PGE from any exposure to Enron pension claims. Enron's employee benefits indemnification will in any event cover PGE's liability.

b) With regard to Enron retiree health benefits, after the stock issuance PGE will not be liable for these claims.

c) Enron and the IRS have reached agreement on Enron's federal income tax liability for 1996 to 2001. Enron's tax indemnity will cover PGE's liability, if any, for years after 2001.

All of these control group liabilities are disclosed in PGE's SEC filings, most recently our Second Quarter 10-Q filed in August 2005. Note 7, "Enron Bankruptcy," in PGE's Second Quarter 2005 Form 10-Q provides further information.

Q. Mr. Cuthbert points out a $73 million receivable owed to PGE by Enron which he claims has a negative impact on PGE customers. (Cuthbert/11 line 24) Is his claim valid?

A. No. First of all, there is no impact on PGE customers. Any implication that customers did not receive the full merger benefit from Enron is mistaken. (Cuthbert /13, lines 22-23) PGE customers have received full credit, with interest, on the $105 million cash benefit promised by PGE and Enron, representing full payment for the items listed in Condition 20 of the Enron merger conditions. This fact and the surrounding circumstances are fully disclosed in the portion of 2004 SEC Form 10-K attached by Mr. Cuthbert to his testimony. (COP/104 Cuthbert/3)

Turning to the impact on PGE, the "forgiveness of Enron accounts payable to PGE" that Mr. Cuthbert discusses (Cuthbert/12, lines 4-8) is not a "negative factor affecting PGE." (Cuthbert/11, line 26) As long as PGE met the minimum equity requirements of Condition 6 of the Enron merger conditions, we could have made a dividend of this amount to Enron or written it off—with the same effect on our balance sheet. In other words, a receivable from Enron to PGE would end up being a dividend from PGE to Enron, dollar for dollar assuming PGE's 48% minimum equity level was sustained. PGE has sustained its 48% minimum equity level throughout the period after Enron declared bankruptcy in December 2001. This receivable -- whether it was written off or collected in full -- has no impact on PGE's customers.

Q. Is Mr. Cuthbert correct that PGE's "exposure" to the California refund matter is approximately $60 million of which $40 million is reserved? (Cuthbert/20 Line 7-11)

A. No. He has the claim reversed. The $60 million (actually about $63 million as of June 30, 2005) is the amount that is owed to PGE by the California ISO and the PX. It represents monies due PGE for power that we supplied to California during the October

2000 through May 2001 period. California consumed the power but never fully paid for it. PGE has reserved $40 million against this receivable for amounts that the Federal Energy Regulatory Commission (FERC) might ultimately find not payable to PGE because of the "no fault" price adjustments FERC has ordered applied to sales to California made during this period.

This price adjustment is not related to any allegations regarding the trading practices of PGE. All FERC regulated sellers of spot power into California during this period are liable for this price adjustment. I explained the California refund matter in my testimony in UM 1121. PGE-SFC(RDC)/Exhibit 404 is the relevant portion of my UM 1121 testimony.

Q. Have circumstances changed in the California refund matter since your testimony in UM 1121?

A. Yes. FERC recently issued an order clarifying how load serving entities, like PGE, should calculate their refund liability to California. (FERC Dockets Nos. EL00-98-000 and EL00-95-00, 112 FERC ¶61,176 issued August 8, 2005) In compliance with this order, PGE filed testimony on September 14, 2005. PGE's testimony indicates that the retroactive price adjustment should be less than the $40 million amount we currently have reserved. If approved, the reserve could be reduced by as much as $27 million.

Q. Continuing with his list of potential liabilities, Mr. Cuthbert mentions "unpaid Multnomah County taxes" as an item that is unresolved. What is the status of this claim? (Cuthbert/12. line 22)

A. Mr. Cuthbert is likely referring to a disclosure we made in our Second Quarter 2005 Form 10-Q. This contingency is unresolved, but it does not involve a liability to

Multnomah County for unpaid taxes. Regardless of the outcome of this contingency we do not anticipate a negative impact on PGE customers.

Q. Are Mr. Cuthbert's claims about PGE liabilities new?

A. No. The question of PGE liabilities and their impact on customers was extensively discussed in the TPG application – UM 1121. I filed reply testimony and sur-sur rebuttal testimony on these claims of PGE liabilities and have included the relevant portions as exhibits to this testimony. (PGE-SFC(RDC) Exhibits 401 and 402) All of the concerns Mr. Cuthbert raises surrounding PGE's liabilities and their impacts on customers were reviewed and addressed by the Commission in the UM 1121 case, with the exception of the Multnomah County business tax and the PGE receivable from Enron which I discussed above.

III. Additional Conditions

Q. Do you agree with the City's recommendation that Conditions 5 and 8 of the Stipulation should be strengthened by requiring prior Commission approval of any cash payments or dividends by PGE to its "new stockholders" when the Reserve is holding greater than 20% of total New PGE Common Stock?

A. No, I do not. Neither Portland General Corporation nor the Enron merger conditions required pre-approval of dividends. Condition 9 in the Enron Merger Conditions did require disclosure of PGE dividends to the Commission. Condition 9 of the Enron merger conditions provides:

> 9. Unless such a disclosure is unlawful, Enron shall notify the Commission of:
>
> a. Its intention to transfer more than 5 percent of PGE's retained earnings to Enron over a six-month period, at least 60 days before such a transfer begins.
>
> b. Its intention to declare a special cash dividend from PGE, at least 30 days before declaring each such dividend.
>
> c. Its most recent quarterly common stock cash dividend payment from PGE within 30 days after declaring each such dividend.

Under this condition, the Commission has no prior approval rights with respect to dividends and receives a notice of quarterly dividends within 30 days after the dividend is declared.

To recognize the different circumstances that will exist after the issuance of the New PGE Common Stock, the parties to the Stipulation developed Conditions 5 and 8.

Condition 5 of the Stipulation prohibits dividends that would reduce PGE's percentage of common equity capital below target percentages. This addresses the concerns related to the City's proposed condition: dividends that meet the minimum equity standard are approved by the Commission; those that do not meet the minimum

equity standard require express Commission approval. Condition 8 of the Stipulation provides strengthened dividend disclosure protection. Condition 8 requires PGE to notify the Commission of any declaration of a dividend at the same time it declares that information to the public. This will result in earlier notice to the Commission than required by the Enron merger condition.

Finally, the City overlooks the fact that PGE's board of directors sets dividend policy consistent with what is expected by the market and PGE's cash flow. That policy is not set by shareholders.

Q. Has the City offered evidence contradicting the significant benefits of the Stipulation as described in the Testimony in Support of the Stipulation?

A. No. Mr. Cuthbert focuses mostly on the original Application and fails to fairly assess that the Stipulation provides for the following benefits:

- significant ring-fencing conditions consistent with the Reserve's ownership and control following the issuance of the New PGE Common Stock;
- significant rights to access to information; access to PGE's board of directors for consumer groups;
- development of improved direct access programs;
- an extension of the Service Quality Measures that would otherwise expire; and
- a process for developing a billing accuracy Service Quality Measure.

Q. Has Mr. Cuthbert substantiated his claim that a rate credit is required in order for the Commission to approve this PGE stock distribution?

A. No. This is a legal question that will be addressed in legal briefs.

Q. Mr. Cuthbert provides a study that models the City's purchase of PGE, which is used to support the City's claim for a rate credit. Is this study relevant?

A. No. The City's proposal is based on speculation. The City has not purchased PGE. It therefore has no purchase price. It has not financed the purchase. Therefore, we do not know the true financing costs. Further, it has provided no financial or operating plan for PGE. Therefore, the City cannot provide even the most basic information necessary to determine what it would cost the City and its citizens to purchase and run PGE.

Finally, in docket UM 1121, the Commission said as to ORS 757.511, "The statute does not provide for consideration of counter-offers or competing proposals." Order No. 05-114, page 16.

IV. New Franchise with Portland

Q. The City, in its objections to approval of the Application with Stipulated Conditions, urges the Commission to condition the approval on PGE entering into a modern franchise with the City of Portland. What is your position on this issue?

A. The City raised this issue in the UM 1121 case. PGE has been holding regular meetings since June of 2004 with the City to produce a new franchise agreement. The discussions included personnel from several City Bureaus and representatives from different areas of PGE. Substantial progress has been made. Given the status of the negotiations between the parties, such a condition is not necessary in this docket. In addition, the Commission Order in UM 1121 ruled that this type of condition, if not in a Stipulation or in the Application, will not be considered by the Commission.

V. Requirements for Stock Issuance

Q. The City in its Objections asserts that the Application and Stipulation fail to meet the requirements of ORS 757.410 et seq. to permit the Commission to authorize the issuance of the New PGE Common Stock. Do you agree?

A. No, for two reasons. First, PGE needs equity invested in its business to support its credit and to provide working capital. All that the Application requests is that the existing common stock representing all of the common equity be canceled and new common stock representing all of the common equity be issued. This does not change PGE's capital structure. It allows PGE to continue to have the common equity outstanding necessary to support its credit ratings and to provide working capital for all of the purposes listed in ORS 757.415, namely, the safe, efficient effective operation of an electric system for the benefit of our customers.

Second, since there are no proceeds to be received by PGE and no change in capital structure, there is no public interest to be served by making the findings in ORS 757.415 and the Commission could exempt this transaction under ORS 757.412.

VI. Qualifications

Q. Mr. Piro, please describe your educational background and experience.

A. I received a Bachelor of Science degree from Oregon State University in Civil Engineering in 1974 with an emphasis in Structural Engineering. In addition, I have taken post graduate courses in engineering, accounting, economics, and rate making. I am a registered Professional Engineer in Civil Engineering in the State of California (Registration No. 28174). I joined Portland General Electric in 1980 and have held various positions in Generation Engineering, Economic Regulation, Financial Analysis and Forecasting, Power Contracts, Economic Analysis, and Planning Support, Analysis and Forecasting.

Q. Does this conclude your testimony?

A. Yes.

List of Exhibits

Exhibit	Description
401	Excerpt from UM 1121/100/ pages 18-19
402	Excerpt from UM 1121/400/ pages 8-10
403	S&P Press Release, dated September 20, 2005
404	Excerpt from UM 1121/100/pages 28-29

BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UF 4218 / UM 1206

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TESTIMONY OF

JIM PIRO

September 28, 2005

I. Introduction

Q. Please state your name, business address, and occupation.

A. My name is Jim Piro. I am the Executive Vice President Finance, Chief Financial Officer and Treasurer of Portland General Electric Company (PGE). My business address is 121 SW Salmon St, Portland, OR. My qualifications appear in the final section of my testimony.

Q. What is the purpose of your testimony?

A. I respond to the testimony of Richard W. Cuthbert, presented on behalf of the City of Portland (Exhibit COP/100).

Q. Please summarize your testimony.

A. My testimony discusses how the City of Portland's (City) objections and Mr. Cuthbert's testimony misrepresent and indicate a significant misunderstanding of the PGE stock issuance and the Stipulation[1]. I also address the questions raised by the City and Mr. Cuthbert about the Enron liabilities and explain why the City's proposed conditions are unwarranted.

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Q. How is your testimony organized?

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Second, I discuss the additional conditions Mr. Cuthbert believes must be imposed on the transaction. These additional conditions are either unnecessary or the need is unsubstantiated.

Third, I discuss PGE progress on negotiations with the City on a new franchise agreement. Both the City and PGE have put a significant effort into new franchise talks.

Finally, I provide the financial reasons why PGE's request to issue new PGE common stock is proper under ORS 757.410 et. seq. This is the UF 4218 portion of the Application.

II. Liabilities

Q. What concern did Mr. Cuthbert express regarding PGE's liabilities?

A. Mr. Cuthbert expresses the concern that the stock issuance plan would release Enron from its obligations in the 1997 merger commitments and that this could impact PGE customers. As he states in his testimony,

> "The bottom line is that the Application and its supporting testimony have failed to note or quantify the potential negative impact of Enron ownership of PGE on ratepayers and how the loss of protection from these liabilities could negatively impact PGE ratepayers before releasing Enron from its indemnity obligations under existing conditions." (COP/100 Cuthbert/13, lines 6-10)

Q. How do you respond to this concern?

A. First and foremost, this concern ignores the Stipulation in which PGE agrees to continue the Enron commitments in the 1997 merger conditions so no harm to customers will occur.

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Third, in Condition 16 of the Stipulation, and as the OPUC anticipated in Order No. 05-114, Enron agrees to provide PGE indemnity for Enron federal income tax and pension liabilities that will not be resolved at the time of the stock issuance. As I discuss later, these control group liabilities related to Enron ownership are either being resolved or will not be applicable once the PGE stock issuance occurs.

Q. Does Mr. Cuthbert support his claim that the transaction removes prior Enron protections? (Cuthbert/10 lines 24-25; Cuthbert 11/ lines 14-17)

A. No. Mr. Cuthbert offers no support for his assertion that approval of this transaction removes "many of the protections against manipulation by Enron imposed by prior Commission orders." Moreover, Mr. Cuthbert is incorrect that the protections transferred from Enron to PGE through Condition 6 of the Stipulation expire. (Cuthbert/20, lines 19-23) Only the requirement to maintain an additional $40 million of minimum common equity capital in Condition 6 (c) of the Stipulation expires after the conclusion of the next general rate case. The "hold harmless" Conditions continue indefinitely.

Q. One of Mr. Cuthbert's concerns is a possible debt cost increase due to Enron ownership. Does Mr. Cuthbert's discussion include all the information in UM 1121 regarding PGE's cost of debt? (Cuthbert/12, lines 1-3)

A. No. He does not address all the information PGE presented in the TPG case. In my testimony in UM 1121, I discussed how lenders determine interest rates on utility borrowings. In my sur sur-rebuttal I discussed the effect of Enron on PGE's cost of debt. I have attached the relevant portions of my UM 1121 testimony as PGE-SFC(RDC) Exhibits 401 and 402.

In summary, I testified that determining whether or not there is an impact on PGE's borrowing rates would require, at a minimum, careful study of the relevant factors. I further concluded that staff witness Thomas Morgan's belief that PGE experienced a large increase in debt expense due to Enron ownership is "not realistic." This continues to be my opinion today.

Q. Mr. Cuthbert claims that "significant liabilities associated with PGE's ownership by Enron will continue to be a factor impacting the company for many years." Is he correct?

A. No. Mr. Cuthbert appears to suggest that at least some and possibly all of the potential liabilities disclosed in PGE's 2004 Form 10-K are caused by Enron's ownership of PGE. (Cuthbert/12, lines 15-23; Cuthbert/21, lines 10-13) This is incorrect. I discuss the liabilities mentioned by Mr. Cuthbert below.

Q. Mr. Cuthbert suggests that PGE has not adequately reserved for its potential liabilities. (Cuthbert/19, lines 4-7 and 21-23) Do you agree?

A. No, I do not. PGE has adequately reserved for its liabilities, based on all available information, to the extent required and has disclosed adequately its liabilities to the public under generally accepted accounting principles and the reporting requirements of the Securities and Exchange Commission (SEC). Companies refer to potential liabilities as contingencies and disclose them in their periodic filings with the SEC, such as the SEC Form 10-K (annual) and Form 10-Q (quarterly).

PGE's Form 10-K includes financial statements that are audited by Deloitte and Touche LLP (D&T), an independent registered public accounting firm. D&T also reviews PGE's Form 10-Q. PGE filed these SEC reports prior to and during Enron's ownership of PGE and will continue to file them after the stock distribution.

Q. How does PGE determine whether it has contingencies to disclose in the periodic SEC filings?

A. Under generally accepted accounting principles, PGE must identify, record and report contingencies as required by Statement of Financial Accounting Standard (SFAS) No. 5, Accounting for Contingencies.

Q. Has PGE followed SFAS No. 5 in each of its Form 10-K and Form 10-Q filings?

A. Yes. For example, PGE's 2004 Form 10-K (fiscal year ended December 31, 2004) includes contingency disclosures such as legal and environmental matters, related party transactions, Enron Bankruptcy, etc. in its Notes to its audited financial statements which fully describe PGE's contingencies as required by SFAS No. 5. In addition, PGE's audited financial statements include accrued loss contingencies when management assesses that it is probable that an asset has been impaired or a liability has been incurred and the amount of the loss can be reasonably estimated.

Q. Are you aware of any material contingencies that meet SFAS No. 5 standards that PGE has not disclosed in its SEC filings, specifically Form 10-Ks and Form 10-Qs?

A. No, I am not.

Q. The rating agencies make public assessments of PGE and its financial strength. Do the rating agencies assess a company's contingencies in the process of rating it?

A. Yes, they do. They evaluate each company's contingencies. The rating agencies are very focused on a company's overall financial condition, including any potential impacts from the contingencies on the companies that they rate.

Q. How have the major rating agencies responded after reviewing PGE's financial position, together with all its reported contingent liabilities?

A. Moody's has rated PGE as Baa1. Standard & Poor's has recently changed the outlook on PGE from "developing" to "stable" and continued our rating of BBB+. In connection with this recent action by Standard & Poor's, they stated the return of PGE to a stand-alone utility is "a near certainty." That fact along with the continuation of strong financial ratios and position led to this strengthened rating. (PGE-SFC(RDC) Exhibit 403)

Q. You mentioned earlier that the control group liabilities, disclosed in PGE's Form 10-Ks and Form 10-Qs, were being resolved. What are the recent events related to these liabilities?

A. Those contingent items relate to potential liabilities due to PGE being part of the Enron control group. These potential liabilities related to a) Enron's pension plan; b) Enron's retiree health benefits; and c) Enron income tax payments.

a) With regard to Enron's pension plan, the judges in both the Bankruptcy Court and the Federal District Court hearing a class action on pension and ERISA claims have approved a settlement. This settlement as approved removes PGE from any exposure to Enron pension claims. Enron's employee benefits indemnification will in any event cover PGE's liability.

b) With regard to Enron retiree health benefits, after the stock issuance PGE will not be liable for these claims.

c) Enron and the IRS have reached agreement on Enron's federal income tax liability for 1996 to 2001. Enron's tax indemnity will cover PGE's liability, if any, for years after 2001.

All of these control group liabilities are disclosed in PGE's SEC filings, most recently our Second Quarter 10-Q filed in August 2005. Note 7, "Enron Bankruptcy," in PGE's Second Quarter 2005 Form 10-Q provides further information.

Q. Mr. Cuthbert points out a $73 million receivable owed to PGE by Enron which he claims has a negative impact on PGE customers. (Cuthbert/11 line 24) Is his claim valid?

A. No. First of all, there is no impact on PGE customers. Any implication that customers did not receive the full merger benefit from Enron is mistaken. (Cuthbert /13, lines 22-23) PGE customers have received full credit, with interest, on the $105 million cash benefit promised by PGE and Enron, representing full payment for the items listed in Condition 20 of the Enron merger conditions. This fact and the surrounding circumstances are fully disclosed in the portion of 2004 SEC Form 10-K attached by Mr. Cuthbert to his testimony. (COP/104 Cuthbert/3)

Turning to the impact on PGE, the "forgiveness of Enron accounts payable to PGE" that Mr. Cuthbert discusses (Cuthbert/12, lines 4-8) is not a "negative factor affecting PGE." (Cuthbert/11, line 26) As long as PGE met the minimum equity requirements of Condition 6 of the Enron merger conditions, we could have made a dividend of this amount to Enron or written it off—with the same effect on our balance sheet. In other words, a receivable from Enron to PGE would end up being a dividend from PGE to Enron, dollar for dollar assuming PGE's 48% minimum equity level was sustained. PGE has sustained its 48% minimum equity level throughout the period after Enron declared bankruptcy in December 2001. This receivable -- whether it was written off or collected in full -- has no impact on PGE's customers.

Q. Is Mr. Cuthbert correct that PGE's "exposure" to the California refund matter is approximately $60 million of which $40 million is reserved? (Cuthbert/20 Line 7-11)

A. No. He has the claim reversed. The $60 million (actually about $63 million as of June 30, 2005) is the amount that is owed to PGE by the California ISO and the PX. It represents monies due PGE for power that we supplied to California during the October

2000 through May 2001 period. California consumed the power but never fully paid for it. PGE has reserved $40 million against this receivable for amounts that the Federal Energy Regulatory Commission (FERC) might ultimately find not payable to PGE because of the "no fault" price adjustments FERC has ordered applied to sales to California made during this period.

This price adjustment is not related to any allegations regarding the trading practices of PGE. All FERC regulated sellers of spot power into California during this period are liable for this price adjustment. I explained the California refund matter in my testimony in UM 1121. PGE-SFC(RDC)/Exhibit 404 is the relevant portion of my UM 1121 testimony.

Q. Have circumstances changed in the California refund matter since your testimony in UM 1121?

A. Yes. FERC recently issued an order clarifying how load serving entities, like PGE, should calculate their refund liability to California. (FERC Dockets Nos. EL00-98-000 and EL00-95-00, 112 FERC ¶61,176 issued August 8, 2005) In compliance with this order, PGE filed testimony on September 14, 2005. PGE's testimony indicates that the retroactive price adjustment should be less than the $40 million amount we currently have reserved. If approved, the reserve could be reduced by as much as $27 million.

Q. Continuing with his list of potential liabilities, Mr. Cuthbert mentions "unpaid Multnomah County taxes" as an item that is unresolved. What is the status of this claim? (Cuthbert/12. line 22)

A. Mr. Cuthbert is likely referring to a disclosure we made in our Second Quarter 2005 Form 10-Q. This contingency is unresolved, but it does not involve a liability to

Multnomah County for unpaid taxes. Regardless of the outcome of this contingency we do not anticipate a negative impact on PGE customers.

Q. Are Mr. Cuthbert's claims about PGE liabilities new?

A. No. The question of PGE liabilities and their impact on customers was extensively discussed in the TPG application – UM 1121. I filed reply testimony and sur-sur rebuttal testimony on these claims of PGE liabilities and have included the relevant portions as exhibits to this testimony. (PGE-SFC(RDC) Exhibits 401 and 402) All of the concerns Mr. Cuthbert raises surrounding PGE's liabilities and their impacts on customers were reviewed and addressed by the Commission in the UM 1121 case, with the exception of the Multnomah County business tax and the PGE receivable from Enron which I discussed above.

III. Additional Conditions

Q. Do you agree with the City's recommendation that Conditions 5 and 8 of the Stipulation should be strengthened by requiring prior Commission approval of any cash payments or dividends by PGE to its "new stockholders" when the Reserve is holding greater than 20% of total New PGE Common Stock?

A. No, I do not. Neither Portland General Corporation nor the Enron merger conditions required pre-approval of dividends. Condition 9 in the Enron Merger Conditions did require disclosure of PGE dividends to the Commission. Condition 9 of the Enron merger conditions provides:

> 9. Unless such a disclosure is unlawful, Enron shall notify the Commission of:
>
> a. Its intention to transfer more than 5 percent of PGE's retained earnings to Enron over a six-month period, at least 60 days before such a transfer begins.
>
> b. Its intention to declare a special cash dividend from PGE, at least 30 days before declaring each such dividend.
>
> c. Its most recent quarterly common stock cash dividend payment from PGE within 30 days after declaring each such dividend.

Under this condition, the Commission has no prior approval rights with respect to dividends and receives a notice of quarterly dividends within 30 days after the dividend is declared.

To recognize the different circumstances that will exist after the issuance of the New PGE Common Stock, the parties to the Stipulation developed Conditions 5 and 8.

Condition 5 of the Stipulation prohibits dividends that would reduce PGE's percentage of common equity capital below target percentages. This addresses the concerns related to the City's proposed condition: dividends that meet the minimum equity standard are approved by the Commission; those that do not meet the minimum

equity standard require express Commission approval. Condition 8 of the Stipulation provides strengthened dividend disclosure protection. Condition 8 requires PGE to notify the Commission of any declaration of a dividend at the same time it declares that information to the public. This will result in earlier notice to the Commission than required by the Enron merger condition.

Finally, the City overlooks the fact that PGE's board of directors sets dividend policy consistent with what is expected by the market and PGE's cash flow. That policy is not set by shareholders.

Q. Has the City offered evidence contradicting the significant benefits of the Stipulation as described in the Testimony in Support of the Stipulation?

A. No. Mr. Cuthbert focuses mostly on the original Application and fails to fairly assess that the Stipulation provides for the following benefits:

- significant ring-fencing conditions consistent with the Reserve's ownership and control following the issuance of the New PGE Common Stock;
- significant rights to access to information; access to PGE's board of directors for consumer groups;
- development of improved direct access programs;
- an extension of the Service Quality Measures that would otherwise expire; and
- a process for developing a billing accuracy Service Quality Measure.

Q. Has Mr. Cuthbert substantiated his claim that a rate credit is required in order for the Commission to approve this PGE stock distribution?

A. No. This is a legal question that will be addressed in legal briefs.

Q. Mr. Cuthbert provides a study that models the City's purchase of PGE, which is used to support the City's claim for a rate credit. Is this study relevant?

A. No. The City's proposal is based on speculation. The City has not purchased PGE. It therefore has no purchase price. It has not financed the purchase. Therefore, we do not know the true financing costs. Further, it has provided no financial or operating plan for PGE. Therefore, the City cannot provide even the most basic information necessary to determine what it would cost the City and its citizens to purchase and run PGE.

Finally, in docket UM 1121, the Commission said as to ORS 757.511, "The statute does not provide for consideration of counter-offers or competing proposals." Order No. 05-114, page 16.

IV. New Franchise with Portland

Q. The City, in its objections to approval of the Application with Stipulated Conditions, urges the Commission to condition the approval on PGE entering into a modern franchise with the City of Portland. What is your position on this issue?

A. The City raised this issue in the UM 1121 case. PGE has been holding regular meetings since June of 2004 with the City to produce a new franchise agreement. The discussions included personnel from several City Bureaus and representatives from different areas of PGE. Substantial progress has been made. Given the status of the negotiations between the parties, such a condition is not necessary in this docket. In addition, the Commission Order in UM 1121 ruled that this type of condition, if not in a Stipulation or in the Application, will not be considered by the Commission.

V. Requirements for Stock Issuance

Q. The City in its Objections asserts that the Application and Stipulation fail to meet the requirements of ORS 757.410 et seq. to permit the Commission to authorize the issuance of the New PGE Common Stock. Do you agree?

A. No, for two reasons. First, PGE needs equity invested in its business to support its credit and to provide working capital. All that the Application requests is that the existing common stock representing all of the common equity be canceled and new common stock representing all of the common equity be issued. This does not change PGE's capital structure. It allows PGE to continue to have the common equity outstanding necessary to support its credit ratings and to provide working capital for all of the purposes listed in ORS 757.415, namely, the safe, efficient effective operation of an electric system for the benefit of our customers.

Second, since there are no proceeds to be received by PGE and no change in capital structure, there is no public interest to be served by making the findings in ORS 757.415 and the Commission could exempt this transaction under ORS 757.412.

VI. Qualifications

Q. Mr. Piro, please describe your educational background and experience.

A. I received a Bachelor of Science degree from Oregon State University in Civil Engineering in 1974 with an emphasis in Structural Engineering. In addition, I have taken post graduate courses in engineering, accounting, economics, and rate making. I am a registered Professional Engineer in Civil Engineering in the State of California (Registration No. 28174). I joined Portland General Electric in 1980 and have held various positions in Generation Engineering, Economic Regulation, Financial Analysis and Forecasting, Power Contracts, Economic Analysis, and Planning Support, Analysis and Forecasting.

Q. Does this conclude your testimony?

A. Yes.

List of Exhibits

Exhibit	Description
401	Excerpt from UM 1121/100/ pages 18-19
402	Excerpt from UM 1121/400/ pages 8-10
403	S&P Press Release, dated September 20, 2005
404	Excerpt from UM 1121/100/pages 28-29

Q. How do a utility's credit ratings affect the cost of a particular issuance?

A. A bond's interest rate is based on the sum of the corresponding treasury yield and the credit spread investors require to have the incentive to purchase the bonds. If PGE is issuing a 10-year bond, then typically a 10-year treasury yield is used. PGE's credit spreads change over time and reflect both the accumulation of all public information in the market encompassing PGE's credit worthiness and an assessment of PGE's ability to generate cash sufficient to repay interest and principal on its debt obligations. Additionally, PGE credit spreads will reflect an assessment by investors in the overall risk in the energy/utility industry sector. If there is uncertainty in a specific industrial sector, a bond investor may either avoid that sector entirely or require additional compensation (coupon) for taking on the industry risk. Investors will refer to the S&P and Moody's bond ratings as one piece of information but, in making their investment decision, will also conduct their own due diligence on PGE's credit worthiness. Investors also look at the underlying collateral associated of the bond. Is the bond secured by PGE's first mortgage or is it unsecured debt of PGE? One other item that affects bond credit spreads is the overall environment in the capital markets: general market forces over time can and do, increase or decrease credit spreads.

II. Enron's Effect on PGE's Debt Costs

Q. What testimony are you rebutting in this section?

A. I am rebutting Staff's testimony (Staff/900, Morgan/24) that PGE's current debt expense is "upwards of five to seven million dollars more than it would have incurred but for Enron's activities and ultimate collapse into bankruptcy."

Although this statement is unclear whether the figures are annual or cumulative, I disagree with this assessment under either scenario.

Q. What debt did PGE issue since December 2001, when Enron declared bankruptcy and what are the maturity dates of that debt?

A. PGE Exhibit 401 shows the notes PGE issued during this period. This debt carries an annual debt service of $30.1 million total.

Q. Can you calculate the amount of this debt service that is attributable to the effect of Enron's bankruptcy on PGE?

A. As I explained in PGE/100, Piro/10-12, many factors affect a company's credit rating, and further affect a given debt issue and I have not undertaken any study of this for the purpose of this testimony. Quantifying the effect of Enron would require, at a minimum, careful study of the factors underlying changes in PGE's credit ratings at the time the changes occurred and of factors that might have influenced those ratings at the time PGE issued the debt, and a determination of the typical interest rate spread between different credit ratings.

Q. Can you comment on Staff's estimate hypothetically, assuming that Staff had proved the necessary attribution?

A. Yes. If one makes the simplifying assumptions that the Commission found that (1) PGE's senior secured credit rating was one notch lower than it would have been solely but for Enron and that, (2) in the interest rate environment that prevailed at the time of this debt issued, one notch was worth 25 basis points, then the annual debt service associated with "Enron" would be about $1 million per year. This is the interest rate differential indicated in Oregon Electric/200,

Wheeler/16. To reach the additional cost Staff claims, assuming that it is an annual number, would require that one assume a utility rated just one notch higher than PGE at the time these bonds issued could finance for approximately 150 basis points – or, 1.5% – less. Based on my experience in utility financing, this is not realistic.

Portland General Electric's Rating Outlook Revised To Stable On Near Certainty of Ownership

SAN FRANCISCO (Standard & Poor's) Sept. 20, 2005

Standard & Poor's Ratings Services revised its rating outlook on Portland General Electric Co. (PGE) to stable from developing to reflect the near certainty that the distribution of PGE's stock to Enron's creditors will be the method by which the question of PGE's ownership is resolved. Additionally, Standard & Poor's Ratings Services also affirmed its 'BBB+' corporate credit rating and all debt ratings on PGE.

State and local efforts to convert PGE to a publicly owned utility have failed, and there are no other bids outstanding currently to acquire PGE from Enron. The stock distribution is scheduled to commence in April 2006, when about 30%-40% of the stock will be distributed. The remainder will be distributed over time as creditor's claims are settled, a process that could take years.

"We expect that PGE's stock will be listed in a major stock exchange to provide Enron's creditors with an exit strategy," Standard & Poor's credit analyst Swami Venkataraman said. "PGE's financial ratios are strong for the current rating, and the continuation of such performance, together with the successful resolution of pending litigation risks, especially those related to the Enron control group and the Trojan nuclear plant, could provide upside rating potential."

In the absence of any further bids to acquire PGE, ownership issues are less likely to be critical determinants of PGE's future credit quality. The current PGE management team has been in place throughout the Enron bankruptcy and provides sufficient stability for ownership issues not to be a credit concern.

PGE continues to face litigation risks from the Enron bankruptcy, including income taxes, retiree health benefits, and pension plans. Claims under these are priority administrative claims against the Enron estate.

The Enron estate is currently reported to have funds that are many multiples larger than these liabilities, the largest of which, likely the pension plans, have an unfunded benefit liability of $321.8 million, according to the Pension Benefit Guaranty Corporation (PBGC). As a member of Enron's control group, PGE may be at risk of having to meet some of these liabilities if Enron's estate fails to do so.

Complete ratings information is available to subscribers of RatingsDirect, Standard & Poor's Web-based credit analysis system, at www.ratingsdirect.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com; under Credit Ratings in the left navigation bar, select Find a Rating, then Credit Ratings Search.

Q. To which of the liabilities currently disclosed in PGE's SEC filings would this principle apply?

A. The principle of matching costs and benefits would apply to:

- The Colville Tribe claim against Douglas PUD relating to the Wells hydro-electric project on the Columbia River. PGE receives a share, devoted solely to retail service, of the output of this project under a long-term contract. It is our understanding that Douglas PUD proposes to resolve this claim through future payments and the dedication of a portion of the project's output to the Tribe. Since these forms of compensation would affect the future cost and output of the project, PGE would likely simply include the payment (as part of our share of project costs) and output effects in a future RVM. This is appropriate because customers receive all of the benefits of this contract.
- FERC docket EL00-95, the "California Refund." PGE has not yet received from California a significant amount of revenue from sales made there during 2000 and 2001. For a portion of those years, FERC may require a refund of the amount of any price found not just and reasonable. This refund would reduce the amount owed PGE. PGE's customers received the benefit of wholesale sales PGE made in the markets covered by the owed revenues and refund obligation during the period January 2001 through June 2001 (the end of the refund period). This period coincide with the power cost adjustment the Commission adopted in Order No. 01-231. When we determined the amount of the variance to amortize in 2002, we included $4.2[1] million as a reserve for uncollectible revenues (the combination of amounts owed and refunds due). Under the refund methodology recently propounded by FERC, this

[1] The $4.2 million was subject to the sharing provision of 90% to customers. Thus, the balance collected from customers resulting from this variance is $3.8 million (90% of $4.2 million)

reserve could almost double. PGE disagrees with FERC's methodology, because we believe that any methodology must recognize PGE's cost in making such sales and that our highest cost retail resources are the relevant cost support. It is possible that, if PGE's approach prevails, some of the reserve we previously took would not be necessary. When this case finally resolves itself, we plan to adjust the balance of the 2001 amortization to charge customers no more and no less than the mechanism requires for that period.

BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UF 4218 / UM 1206

In the Matter of the Application of PORTLAND GENERAL ELECTRIC COMPANY for an Order Authorizing the Issuance of 62,500,000 Shares of New Common Stock Pursuant to ORS 757.410 et seq. **UF 4218**
and
In the Matter of the Application of STEPHEN FORBES COOPER, LLC, as Disbursing Agent, on behalf of the RESERVE FOR DISPUTED CLAIMS, for an Order Allowing the Reserve for Disputed Claims to Acquire the Power to Exercise Substantial Influence over the Affairs and Policies of Portland General Electric Company Pursuant to ORS 757.511 **UM 1206**

TESTIMONY OF

MITCHELL S. TAYLOR

September 28, 2005

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Q. Please state your name, business address and occupation.

A. My name is Mitchell Taylor. I am a Managing Director - Corporate Development for Enron Corp. ("Enron"). My business address is 1221 Lamar, Suite 1600, Houston, Texas. My qualifications are set forth in PGE-SFC(RDC)/100 at page 2.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to respond to the Testimony of Richard W. Cuthbert filed on behalf of the City of Portland ("City") on September 16, 2005 ("Testimony"), and also respond to the City of Portland's Objections to Approval of Application with Stipulated Conditions ("Objections") also filed on September 16, 2005. My testimony discusses how the City's Objections and Testimony misrepresent and reflect a significant misunderstanding of the substantial differences in corporate structure, ownership and governance of Portland General Electric Company ("PGE") after the issuance of the New PGE Common Stock compared to the status quo in which 100% of PGE's common stock is owned by Enron Corp.

Q. Mr. Cuthbert asserts on behalf of the City ". . . I believe that the Application and Stipulation do not maintain the current level of protections afforded to PGE's customers by the existing conditions available under Enron's ownership and do not provide a net benefit to PGE rate payers. Additionally, I believe that the implementation of the actions proposed in the Application and Stipulation will pose increased risks and increased liabilities to PGE's rate payers." COP/100, Cuthbert/4-5. Do you agree with Mr. Cuthbert?

A. No. This assertion, which appears in various forms and words throughout the Testimony of Mr. Cuthbert and the Objections, is based on a fundamental misunderstanding of the differences between PGE's current corporate structure, governance and ownership and the

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corporate structure, governance and ownership of PGE after the issuance of the New PGE Common Stock.

Q. Please explain PGE's current corporate structure, ownership and governance.

A. PGE is an Oregon corporation. 100% of its common stock is owned by Enron. The common stock is not listed on a stock exchange and is not available for sale to the public.

PGE is governed by its board of directors. The board of directors owe their fiduciary duty to Enron because there are no other common shareholders. Enron has the right to elect PGE's board of directors. Enron has the right, without notice, to remove and replace PGE's board of directors at any time because there are no other common shareholders.

Q. How will the corporate structure, ownership and governance be different after the issuance of the New PGE Common Stock?

A. PGE will still be an Oregon corporation, governed by its Board, but every other aspect of corporate structure, ownership and governance will be different. First, Enron will own none of PGE's common stock. All of PGE's common stock owned by Enron will be canceled. Next, not less than 30% of the New PGE Common Stock will be issued to Holders of Allowed Claims who may then trade it in the market.

The remainder of the New PGE Common Stock, not exceeding 70%, will be distributed to the Reserve for Disputed Claims ("Reserve"). The Reserve is a form of trust created by Enron's bankruptcy Plan. It is not a 100% shareholder, and its status as a majority shareholder of PGE is temporary. The Reserve's role is not to control or operate PGE. The sole purpose of the Reserve is to hold assets of the Debtors' estates and to release those assets to Holders of Allowed Claims as their claims are settled and allowed. These assets include the New PGE Common Stock. The operations of the Reserve will be governed by the Plan, by the Guidelines

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for the Disputed Claims Reserve and by the Guidelines for the DCR Overseers. The Reserve is expected to hold less than 50% of the New PGE Common Stock within one year after its issuance, and less than 30% within two years after its issuance.

This means that, over time, PGE is likely to have a growing and increasingly diverse shareholder base. The board of directors of PGE will owe its fiduciary duty to all shareholders (not just one, as is the case now with Enron), regardless of how many shares of common stock each holds.

The New PGE Common Stock held in the Reserve will be registered in the name of Stephen Forbes Cooper, LLC, as Disbursing Agent. However, the Guidelines for the Disputed Claims Reserve and the Guidelines for the DCR Overseers make it clear that the DCR Overseers direct the Disbursing Agent how to vote the stock and direct when and where to sell the stock.

Upon the issuance of the New PGE Common Stock, PGE will have an independent board of directors that will comply with all applicable requirements, including the Sarbanes-Oxley Act. The New PGE Common Stock will be registered with the SEC and listed on a stock exchange. As such, PGE will be subject to the rules regulating trading by insiders and the public disclosure rules applicable to publicly traded common stock, as well as the rules of the exchange on which the stock is listed.

As a publicly traded company, PGE will prepare an annual report and a proxy statement nominating persons for election as directors. The shareholders of PGE will annually vote for the election of directors. They also have the right to vote on other matters properly brought before the shareholders under PGE's Articles of Incorporation and Bylaws, Oregon law or stock exchange rules. As pointed out in the testimony of Messrs. Rogan and Palmer, however, the directors, not the shareholders, declare dividends, manage the corporation and set corporate

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policy. PGE-SFC(RDC)/300, Rogan-Palmer/1-3. In addition, in order to remove and replace directors of PGE as a publicly traded company, the Reserve or any other shareholder would have to propose a new slate of directors, call a shareholders meeting and distribute a proxy statement subject to SEC review. The cost of these actions is substantial, and this is generally an undesirable alternative. PGE-SFC(RDC)/300, Rogan-Palmer/11.

Finally, neither the Disbursing Agent nor the DCR Overseers have any economic interest in the assets in the Reserve. Accordingly, there is no incentive for them to do anything other than vote the Reserve's shares with the goal of maintaining the long-term value of PGE as a going enterprise and distributing that value to the Holders of Allowed Claims in the form of New PGE Common Stock, unless they are presented with a purchase offer for the New PGE Common Stock which they believe provides better value to Holders of Allowed Claims.

Q. Do you agree with the City's assertion in its Objections that Stephen Forbes Cooper will control as much as 70% of the New PGE Common Stock, thus having effective voting control over the company and that "the results of Stephen Forbes Cooper's plenary control over PGE is likely to create conflicts between the short-term financial interests of the Enron creditors and the longer-term interests of ratepayers"? (Objections, page 10, lines 24, 25; page 11, lines 21-23; and as cited in the Testimony COP/100, pages 16-18).

A. No. Based on what we just explained, there are several reasons why these statements are inaccurate. First, Stephen Forbes Cooper personally does not control anything. Stephen Forbes Cooper, LLC, is the Disbursing Agent. The Disbursing Agent has no "effective voting control" or "plenary" control because the DCR Overseers are responsible for directing the Disbursing Agent how to vote PGE stock.

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The voting rights of the Overseers are not "plenary" for the simple reason that they are not complete. The Overseers will vote no more than 70% of the New PGE Common Stock in any matter that comes before the shareholders, and that percentage will decline as claims are settled and the New PGE Common Stock held by the Reserve is released to Holders of Allowed Claims.

Q. The City suggests that the Reserve is a "short-term financial player" (Objections, page 12, lines 18-19) and that the "sole duty" of the Reserve is "short-term maximization of value for the creditors" (Objections, page 11, line 25) (see also Testimony, page 16, line 22). The City also asserts that the Commission needs to be concerned with control by parties with short-term monetary interests and concerns about short-term financial gaming. (Objections, page 13, lines 7-8). Do you agree with these characterizations?

A. No. The City misstates the "sole duty" of the Reserve because "short-term maximization of value," as asserted by the City, is not the mission of the DCR Overseers. The Guidelines for the DCR Overseers apply to Plan Securities and do not use the phrase "short-term." Instead, they provide that the Overseers shall use their business judgment to maximize the value of the New PGE Common Stock upon its release from the Reserve, not the "short-term maximization of value."

The City's concerns seem to be the result of a misunderstanding of comments made by the Commission with respect to Texas Pacific Group in UM 1121. The City quotes the Commission as follows: "[S]hort-term ownership makes it somewhat more likely that [ratepayers] will be exposed to the effects of poor spending and investment decisions. Such risks could cause degradation of utility service and the diminution of utility assets." (Objections, page 12, lines 2-4). The City then states: "These risks are greater under the current Application, but

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these potential harms are not addressed in any fashion by the proposed stipulated conditions." Objections, page 12, lines 4-6).

The City's attempted analogy fails because this is a completely different transaction. The Reserve is not acquiring New PGE Common Stock with the intent to resell. It is acquiring it because that is required by the Plan and the Plan anticipates that the Reserve will release PGE stock to Holders of Allowed Claims as rapidly as possible. It will distribute the New PGE Common Stock to Enron's creditors who hold allowed claims. These are the parties that currently own all of the beneficial interests in Enron and will own all of the beneficial interests in the Reserve.

Additionally, none of the potential harms cited in the TPG transaction are created by the issuance of the New PGE Common Stock. The ability of the registered owner of the New PGE Common Stock to engage in "short-term financial gaming" or other "short-term" activity will be reduced as a result of the issuance of the New PGE Common Stock, not increased. Ownership will go from 100% by Enron to not more than 70% by the Reserve. PGE will have many shareholders, not just one dominant owner.

The City also does not define the term "short-term financial gaming" except to imply it involves the reduction in capital expenditures to increase cash-flow dividends and offers no evidence that the Reserve would engage in it. As pointed out in the testimony of Rogan/Palmer, the Reserve cannot compel PGE's board to adopt a dividend policy and cannot compel PGE's independent board to cut capital expenditures. Those are matters solely within the purview of the board. PGE-SFC(RDC)/300, Rogan-Palmer/2-3.

Q. Has the City mischaracterized PGE's and the Reserve's position on local control of PGE?

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A. Yes. The City's Testimony (at Cuthbert/14-18) has an entire section entitled "Issue of claimed benefits from local control." The City claims that "local control" of PGE after the issuance of the New PGE Common Stock is not a benefit. However, the Application and the Stipulation do not claim that local control is a benefit of the issuance of the New PGE Common Stock. Therefore, the City's testimony on this topic is irrelevant.

Q. On page 4 of the Objections, the City states: "[N]othing in the Application, nothing in the Joint Testimony, and nothing in the bankruptcy reorganization plan addresses or explains why PGE must cancel the existing PGE common stock currently held by Enron and issue new Common Stock to Enron. No explanation is provided as to why there must be an increase of over 45% in the amount of shares of PGE common stock. Nor is any explanation provided as to why the existing PGE common stock cannot be used to effect the proposed stock distribution plan." Can you comment on these statements?

A. Yes. First, contrary to the statement made by the City, the New PGE Common Stock will not be issued to Enron. As explained at length in the Application and above, not less than 30% of the New PGE Common Stock will be issued to Holders of Allowed Claims and the remainder (not exceeding 70%) will be distributed to the Reserve to be held until released to Holders of Allowed claims as claims against the Debtors' estates are settled.

I am informed by counsel that the issuance of the New PGE Common Stock was structured to use the exemption from registration under the Securities Act of 1933 provided by Section 1145 of the Bankruptcy Code. See footnote 26 of the Application. 62.5 million shares of New PGE Common Stock was selected as the appropriate number of shares to issue because that is the number of shares that the financial advisor for the Debtors believed would yield an attractive per share market price at the time the New PGE Common Stock began public trading.

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Increasing the number of shares of PGE's common stock from 42.75 million to 62.5 million only has the effect of reducing the per share price of the common stock. Contrary to the City's Objections on page 3, this is not dilutive because the total number of shares represents 100% of PGE's common equity in either case.

Q. Mr. Cuthbert raises the question whether the Enron indemnity obligations in the Stipulation are illusory because they may not be paid in full. Cuthbert/12-13. What is the status of obligations in the Stipulation?

A. Enron's indemnity obligations in the Stipulation are post-bankruptcy obligations of Enron. Therefore, they are not creditor claims that will paid only a percentage on the dollar of the claim. Rather, they would be paid in full.

This concludes my testimony.

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BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UF 4218 / UM 1206

In the Matter of the Application of PORTLAND GENERAL ELECTRIC COMPANY for an Order Authorizing the Issuance of 62,500,000 Shares of New Common Stock Pursuant to ORS 757.410 et seq. **UF 4218**

and

In the Matter of the Application of STEPHEN FORBES COOPER, LLC, as Disbursing Agent, on behalf of the RESERVE FOR DISPUTED CLAIMS, for an Order Allowing the Reserve for Disputed Claims to Acquire the Power to Exercise Substantial Influence over the Affairs and Policies of Portland General Electric Company Pursuant to ORS 757.511 **UM 1206**

TESTIMONY OF
MITCHELL S. TAYLOR

September 28, 2005

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Q. Please state your name, business address and occupation.

A. My name is Mitchell Taylor. I am a Managing Director - Corporate Development for Enron Corp. ("Enron"). My business address is 1221 Lamar, Suite 1600, Houston, Texas. My qualifications are set forth in PGE-SFC(RDC)/100 at page 2.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to respond to the Testimony of Richard W. Cuthbert filed on behalf of the City of Portland ("City") on September 16, 2005 ("Testimony"), and also respond to the City of Portland's Objections to Approval of Application with Stipulated Conditions ("Objections") also filed on September 16, 2005. My testimony discusses how the City's Objections and Testimony misrepresent and reflect a significant misunderstanding of the substantial differences in corporate structure, ownership and governance of Portland General Electric Company ("PGE") after the issuance of the New PGE Common Stock compared to the status quo in which 100% of PGE's common stock is owned by Enron Corp.

Q. Mr. Cuthbert asserts on behalf of the City ". . . I believe that the Application and Stipulation do not maintain the current level of protections afforded to PGE's customers by the existing conditions available under Enron's ownership and do not provide a net benefit to PGE rate payers. Additionally, I believe that the implementation of the actions proposed in the Application and Stipulation will pose increased risks and increased liabilities to PGE's rate payers." COP/100, Cuthbert/4-5. Do you agree with Mr. Cuthbert?

A. No. This assertion, which appears in various forms and words throughout the Testimony of Mr. Cuthbert and the Objections, is based on a fundamental misunderstanding of the differences between PGE's current corporate structure, governance and ownership and the

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corporate structure, governance and ownership of PGE after the issuance of the New PGE Common Stock.

Q. Please explain PGE's current corporate structure, ownership and governance.

A. PGE is an Oregon corporation. 100% of its common stock is owned by Enron. The common stock is not listed on a stock exchange and is not available for sale to the public.

PGE is governed by its board of directors. The board of directors owe their fiduciary duty to Enron because there are no other common shareholders. Enron has the right to elect PGE's board of directors. Enron has the right, without notice, to remove and replace PGE's board of directors at any time because there are no other common shareholders.

Q. How will the corporate structure, ownership and governance be different after the issuance of the New PGE Common Stock?

A. PGE will still be an Oregon corporation, governed by its Board, but every other aspect of corporate structure, ownership and governance will be different. First, Enron will own none of PGE's common stock. All of PGE's common stock owned by Enron will be canceled. Next, not less than 30% of the New PGE Common Stock will be issued to Holders of Allowed Claims who may then trade it in the market.

The remainder of the New PGE Common Stock, not exceeding 70%, will be distributed to the Reserve for Disputed Claims ("Reserve"). The Reserve is a form of trust created by Enron's bankruptcy Plan. It is not a 100% shareholder, and its status as a majority shareholder of PGE is temporary. The Reserve's role is not to control or operate PGE. The sole purpose of the Reserve is to hold assets of the Debtors' estates and to release those assets to Holders of Allowed Claims as their claims are settled and allowed. These assets include the New PGE Common Stock. The operations of the Reserve will be governed by the Plan, by the Guidelines

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for the Disputed Claims Reserve and by the Guidelines for the DCR Overseers. The Reserve is expected to hold less than 50% of the New PGE Common Stock within one year after its issuance, and less than 30% within two years after its issuance.

This means that, over time, PGE is likely to have a growing and increasingly diverse shareholder base. The board of directors of PGE will owe its fiduciary duty to all shareholders (not just one, as is the case now with Enron), regardless of how many shares of common stock each holds.

The New PGE Common Stock held in the Reserve will be registered in the name of Stephen Forbes Cooper, LLC, as Disbursing Agent. However, the Guidelines for the Disputed Claims Reserve and the Guidelines for the DCR Overseers make it clear that the DCR Overseers direct the Disbursing Agent how to vote the stock and direct when and where to sell the stock.

Upon the issuance of the New PGE Common Stock, PGE will have an independent board of directors that will comply with all applicable requirements, including the Sarbanes-Oxley Act. The New PGE Common Stock will be registered with the SEC and listed on a stock exchange. As such, PGE will be subject to the rules regulating trading by insiders and the public disclosure rules applicable to publicly traded common stock, as well as the rules of the exchange on which the stock is listed.

As a publicly traded company, PGE will prepare an annual report and a proxy statement nominating persons for election as directors. The shareholders of PGE will annually vote for the election of directors. They also have the right to vote on other matters properly brought before the shareholders under PGE's Articles of Incorporation and Bylaws, Oregon law or stock exchange rules. As pointed out in the testimony of Messrs. Rogan and Palmer, however, the directors, not the shareholders, declare dividends, manage the corporation and set corporate

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policy. PGE-SFC(RDC)/300, Rogan-Palmer/1-3. In addition, in order to remove and replace directors of PGE as a publicly traded company, the Reserve or any other shareholder would have to propose a new slate of directors, call a shareholders meeting and distribute a proxy statement subject to SEC review. The cost of these actions is substantial, and this is generally an undesirable alternative. PGE-SFC(RDC)/300, Rogan-Palmer/11.

Finally, neither the Disbursing Agent nor the DCR Overseers have any economic interest in the assets in the Reserve. Accordingly, there is no incentive for them to do anything other than vote the Reserve's shares with the goal of maintaining the long-term value of PGE as a going enterprise and distributing that value to the Holders of Allowed Claims in the form of New PGE Common Stock, unless they are presented with a purchase offer for the New PGE Common Stock which they believe provides better value to Holders of Allowed Claims.

Q. Do you agree with the City's assertion in its Objections that Stephen Forbes Cooper will control as much as 70% of the New PGE Common Stock, thus having effective voting control over the company and that "the results of Stephen Forbes Cooper's plenary control over PGE is likely to create conflicts between the short-term financial interests of the Enron creditors and the longer-term interests of ratepayers"? (Objections, page 10, lines 24, 25; page 11, lines 21-23; and as cited in the Testimony COP/100, pages 16-18).

A. No. Based on what we just explained, there are several reasons why these statements are inaccurate. First, Stephen Forbes Cooper personally does not control anything. Stephen Forbes Cooper, LLC, is the Disbursing Agent. The Disbursing Agent has no "effective voting control" or "plenary" control because the DCR Overseers are responsible for directing the Disbursing Agent how to vote PGE stock.

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