

PORTLAND GENERAL ELECTRIC CO /OR/  
Form 10-K  
March 02, 2007

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2006

OR

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934

For the Transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 1-5532-99

PORTLAND GENERAL ELECTRIC COMPANY

(Exact name of registrant as specified in its charter)

Oregon

93-0256820

(State or other jurisdiction of  
incorporation or organization)

(I.R.S. Employer  
Identification No.)

121 SW Salmon Street, Portland, Oregon 97204

(Address of principal executive offices) (zip code)

Registrant's telephone number, including area code: **(503) 464-8000**

Securities registered pursuant to Section 12(b) of the Act:

Title of each class		Name of each exchange on which registered
Common Stock, no par value		New York Stock Exchange
Securities registered pursuant to Section 12(g) of the Act:		
	Title of class	
	Portland General Electric Company 7.75% Series, Cumulative Preferred Stock, no par value	

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

The aggregate market value of the voting stock held by non-affiliates of Portland General Electric Company, computed by reference to the price at which the common stock was last sold, as of the last business day of Portland General Electric Company's most recently completed second fiscal quarter was approximately \$694,391,829. The number of shares of Portland General Electric Company's common stock outstanding at February 28, 2007 was 62,504,767 shares.

Documents Incorporated by Reference

Part III, Items 10 - 14 Portions of Portland General Electric Company's definitive proxy statement to be filed pursuant to Regulation 14A for the 2007 Annual Meeting of Shareholders to be held on May 2, 2007.

## DEFINITIONS

The following abbreviations or acronyms used in the text and notes to the financial statements are defined below:	
<u>Abbreviations or Acronyms</u>	
AFDC	Allowance For Funds Used During Construction
Bankruptcy Court	United States Bankruptcy Court for the Southern District of New York
Beaver	Beaver Combustion Turbine Plant
Boardman	Boardman Coal Plant
BPA	Bonneville Power Administration
Chapter 11 Plan	Fifth Amended Joint Plan of Affiliated Debtors Pursuant to Chapter 11 of the United States Bankruptcy Code, dated January 9, 2004 and as thereafter amended and supplemented from time to time
Colstrip	Colstrip Units 3 and 4 Coal Plant
Coyote Springs	Coyote Springs Unit 1 Generating Plant
CUB	Citizens' Utility Board
Debtors	Enron Corp. and its reorganized debtor subsidiaries under the Chapter 11 Plan
DCR	Disputed Claims Reserve
DEQ	Oregon Department of Environmental Quality
Dth	Decatherm = 10 therms = 1,000 cubic feet of natural gas
EFSC	Energy Facility Siting Council
EITF	Emerging Issues Task Force of the Financial Accounting Standards Board

Enron	Enron Corp., as reorganized debtor pursuant to its Supplemental Modified Fifth Amended Joint Plan of Affiliated Debtors Pursuant to Chapter 11 of the Bankruptcy Code, confirmed by the United States Bankruptcy Court For The Southern District of New York (Case No. 01-16034) on July 15, 2004 and effective November 17, 2004
EPA	U.S. Environmental Protection Agency
ERISA	Employee Retirement Income Security Act of 1974
ESA	Endangered Species Act
ESS	Electricity Service Supplier
FERC	Federal Energy Regulatory Commission
Financial Statements	Consolidated Financial Statements of Portland General Electric Company included in Part II, Item 8 of this report
kWh	Kilowatt-hour

## DEFINITIONS

<u>Abbreviations or Acronyms</u>	
MW	Megawatt
MWa	Average megawatts
MWh	Megawatt-hour
NRC	Nuclear Regulatory Commission
OPUC	Public Utility Commission of Oregon
SB 408	Oregon Senate Bill 408
PGE or the Company	Portland General Electric Company
Port Westward	Port Westward Power Plant
RVM	Resource Valuation Mechanism

SEC	Securities and Exchange Commission
SFAS	Statement of Financial Accounting Standards (issued by the Financial Accounting Standards Board)
Trojan	Trojan Nuclear Plant
URP	Utility Reform Project
USDOE	United States Department of Energy

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## Part I

### Item 1. Business

#### General

Portland General Electric Company (PGE, or the Company), incorporated in 1930, is a single, integrated electric utility engaged in the generation, purchase, transmission, distribution, and retail sale of electricity in the State of Oregon. PGE also sells electricity and natural gas in the wholesale market to utilities and energy marketers in the western United States. PGE operates as a single segment, with revenues and costs related to its business activities maintained and analyzed on a total electric operations basis. PGE's service area is located entirely within Oregon and includes 52 incorporated cities, of which Portland and Salem are the largest, within a state-approved service area allocation of approximately 4,000 square miles. PGE estimates that at the end of 2006 its service area population was approximately 1.6 million, comprising about 43% of the state's population. The Company added approximately 13,000 retail customers during 2006, and at December 31, 2006 served approximately 793,000 retail customers.

On July 2, 1997, Portland General Corporation, the former parent of PGE, merged with Enron Corp., with Enron continuing in existence as the surviving corporation and PGE operating as a wholly owned subsidiary of Enron. On December 2, 2001, Enron, along with certain of its subsidiaries, filed to initiate bankruptcy proceedings under Chapter 11 of the federal Bankruptcy Code. PGE was not included in the filing.

In accordance with Enron's Chapter 11 Plan, on April 3, 2006 the 42.8 million shares of PGE common stock held by Enron were cancelled and PGE issued 62.5 million shares (of 80 million, no par value, shares authorized) of new PGE common stock. Approximately 27 million shares of the new PGE common stock were initially issued to the Debtors' creditors holding allowed claims, and approximately 35.5 million shares were issued to a Disputed Claims Reserve (DCR), where the shares will be held to be released over time to the Debtors' creditors holding allowed claims, in accordance with the Chapter 11 Plan. Distributions are generally scheduled for April and October of each year. Since the initial distribution, approximately 3.5 million shares of PGE common stock have been released from the DCR,

with approximately 32 million shares held in the DCR as of February 1, 2007. Following issuance of the new PGE common stock, PGE ceased to be a subsidiary of Enron. The new PGE common stock is listed on the New York Stock Exchange under the ticker symbol POR. For further information, see "Ownership of PGE" in Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operation."

As of December 31, 2006, PGE had 2,635 employees. This compares to 2,620 and 2,644 employees at December 31, 2005 and 2004, respectively. A total of 858 employees are covered under agreements with Local Union No. 125 of the International Brotherhood of Electrical Workers. Such agreements cover 829 employees for a five-year period effective from March 1, 2004 through February 28, 2009. In addition, 29 employees (13 at Coyote Springs and 16 at Port Westward) are currently covered under an agreement that began on September 1, 2001, with a new agreement, effective from March 17, 2007 through March 16, 2012, pending ratification.

#### Available Information

The Company's annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 are available or may be accessed free of charge through the Investors section of the Company's website at [www.portlandgeneral.com](http://www.portlandgeneral.com) as soon as reasonably practicable after the reports are electronically filed with, or furnished to, the Securities and Exchange Commission (SEC). It is not intended that the Company's website and the information contained therein or connected thereto be incorporated into this Annual Report on Form 10-K. Information may also be obtained via the SEC Internet website at [www.sec.gov](http://www.sec.gov).

### Customers and Operating Revenues

#### Retail

PGE serves a diverse retail customer base. Residential, the largest customer class, comprises about 88% of the Company's total number of customers, with the remainder comprised largely of commercial customers. At year-end 2006, PGE served 259 industrial customers. Residential demand is sensitive to the effects of weather, with revenues highest during the winter heating season. Commercial and industrial customer classes are not dominated by any single industry. While the 20 largest customers constitute about 13% of total retail revenues, they represent 9 different commercial and industrial groups, including high technology, paper manufacturing, metal fabrication, health services, and governmental agencies. No single customer represents more than 5% of PGE's total retail load or 4% of total retail revenues.

#### Wholesale

PGE participates in the wholesale marketplace in order to balance its supply of power to meet the needs of its retail customers, manage risk, and administer its current long-term wholesale contracts. Such participation includes power purchases and sales resulting from economic dispatch decisions for its own generation, which allows PGE to secure reasonably priced power for its customers. Interconnected transmission systems in the western states serve utilities with diverse load requirements, which allows the Company to purchase and sell electricity within the region depending upon the relative price and availability of power, water conditions, and seasonal demand.

Wholesale electricity sales related to activities to serve retail load requirements comprised about 9% and 8% of total operating revenues in 2006 and 2005, respectively. Most of PGE's wholesale sales are to utilities and power marketers and are predominantly short-term. The Company may net purchases and sales with the same counterparty rather than simultaneously receiving and delivering physical power. These net transactions are also referred to as "book outs." Only the net amount of those purchases or sales required to fulfill retail and wholesale obligations are physically

settled.

### Other Operating Revenues

Other operating revenues include sales of natural gas in excess of generating plant requirements and revenues from transmission services, pole contact rentals, and certain other electric services to customers.

The following table summarizes PGE's Total Operating Revenues for the years indicated (dollars in millions):

	2006			2005			2004		
	Amount		%	Amount		%	Amount		%
Operating Revenues									
Retail	\$ 1,367		90%	\$ 1,305		90%	\$ 1,318		91%
Wholesale	135		9%	116		8%	107		7%
Other Operating Revenues	18		1%	25		2%	29		2%
Total Operating Revenues	\$ 1,520		100%	\$ 1,446		100%	\$ 1,454		100%

For further information, including year-to-year comparisons of revenues, energy sales, and number of customers, see Item 7. - "Management's Discussion and Analysis of Financial Condition and Results of Operation."

### Regulation

PGE is subject to the jurisdiction of the Public Utility Commission of Oregon (OPUC), comprised of three members appointed by Oregon's governor to serve non-concurrent four-year terms. The OPUC approves the Company's retail prices and establishes conditions of utility service. The OPUC's obligation under Oregon law is to ensure that the prices and terms of service are fair, non-discriminatory, and provide PGE an opportunity to earn a fair return on its investment. In addition, the OPUC regulates the issuance of stock and long-term debt, prescribes the system of accounts to be kept by Oregon utilities, and reviews applications to sell utility assets and engage in transactions with

affiliated companies.

Certain activities of PGE are also subject to the jurisdiction of the Federal Energy Regulatory Commission (FERC). The Company is a "licensee" and a "public utility," as those terms are used in the Federal Power Act, and is subject to regulation by the FERC as to accounting policies and practices, licensing of hydroelectric projects, transmission services, wholesale sales, issuance of short-term debt, and other matters. The Energy Policy Act of 2005, which significantly revised the Federal Power Act and Natural Gas Act, gave the FERC increased authority to implement mandatory transmission and reliability standards as well as enhanced oversight of power and transmission markets, including protection against market manipulation. In addition, PGE's interest in a natural gas pipeline is subject to the FERC's jurisdiction. Under the Natural Gas Act of 1938 and the Natural Gas Policy Act of 1978, the FERC's authority includes matters related to extension, enlargement, safety, and abandonment of jurisdictional pipeline facilities, as well as transportation rates and accounting for interstate natural gas commerce.

Construction of new generating facilities in Oregon requires a permit from the Energy Facility Siting Council (EFSC).

The Nuclear Regulatory Commission (NRC) regulates the licensing and decommissioning of nuclear power plants. In 1993, the NRC issued a possession-only license amendment to PGE's Trojan operating license, and in early 1996 the NRC and EFSC approved the Trojan Decommissioning Plan, which has allowed PGE to proceed in decommissioning the plant. The NRC approved the completed transfer of spent nuclear fuel from the Trojan spent fuel pool to a separately licensed dry cask storage system that will house the nuclear fuel on the plant site until permanent storage is available. PGE completed the radiological decommissioning of the Trojan site in December 2004 pursuant to an NRC-approved License Termination Plan, with the plant's Facility Operating License terminated by the NRC in May 2005. Spent fuel storage activities will continue to be subject to NRC regulation until all nuclear fuel is removed from the site, decontamination is completed, and the storage installation is fully decommissioned. The Oregon Department of Energy also monitors Trojan. For further information, see "Nuclear Decommissioning" in Item 7. - "Management's Discussion and Analysis of Financial Condition and Results of Operation."

## Regulatory Matters

### Retail Rate Changes

PGE filed a general rate case in March 2006 for consideration by the OPUC. On January 12, 2007, the OPUC issued an order approving an overall price increase of approximately 1.3%. The increase represents the combined effect of a 1.4% decrease related to general costs, which became effective on January 17, 2007, and a 2.8% increase related to cost recovery of Port Westward, to become effective when the plant is placed in service, expected to be in late April 2007. The decrease related to general costs primarily reflects reductions in forecasted test year costs and the effects of decisions regarding the cost of capital. The change in retail prices is based upon a 50% equity capital structure, a 10.1% return on equity, and an overall rate of return of 8.29%.

The OPUC previously authorized a 5.1% average retail price increase, effective on January 1, 2007, under the Resource Valuation Mechanism (RVM) providing price adjustments reflecting annual updates to PGE's forecast of net variable power costs. The OPUC's January 12<sup>th</sup> order approved a process by which PGE can continue to adjust prices to reflect power cost forecasts for future years. An Annual Power Cost Update Tariff, which replaces the RVM, provides for rate adjustments to reflect updated forecasts of net variable power costs for future calendar years. In addition, a Power Cost Adjustment Mechanism (PCAM) provides for rate adjustments to reflect differences between forecast and actual power costs, with costs and benefits shared with PGE's retail customers. For further information, see "Resource Valuation Mechanism" and "General Rate Case" in Item 7. - "Management's Discussion and Analysis of Financial Condition and Results of Operation."

### Utility Rate Treatment of Income Taxes

In 2005, the Oregon legislature passed a law that adjusts the way that PGE and other Oregon investor-owned electric and gas utilities recover income tax expense from customers through revenues for utility services. The law, commonly referred to as Oregon Senate Bill 408 (SB 408), attempts to more closely match income tax amounts forecasted to be collected in revenues with the amount of income taxes paid to governmental entities by investor-owned utilities or their consolidated group. It requires that utilities file a report with the OPUC each year regarding the amount of taxes paid by the utility or its consolidated group (with certain adjustments), as well as the amount of taxes authorized to be collected in rates, as defined by the statute. This report is to be filed by October 15<sup>th</sup> of the year following the reporting year. If the OPUC determines that the difference between the two amounts is greater than \$100,000, the utility is required to adjust its rates. The first rate adjustment under the law applies to taxes paid to units of government and amounts collected from customers on or after January 1, 2006.

Based on PGE's assessment of the rules adopted by the OPUC in September 2006 to implement SB 408, the Company has estimated and recorded potential refunds to customers of approximately \$42 million (including \$2 million in accrued interest) for the year 2006. Any refunds to customers for the 2006 tax year would begin after June 1, 2008. For further information, see "Utility Rate Treatment of Income Taxes" in Item 7. - "Management's Discussion and Analysis of Financial Condition and Results of Operation."

### Retail Customer Choice Program

Oregon's customer choice program, implemented in 2002 as part of the state's electricity restructuring law, provides all commercial and industrial customers of the two large investor-owned utilities in Oregon direct access to suppliers of electric commodity service other than PGE (Electricity Service Suppliers, or ESSs). In addition, cost-of-service and market price options are offered to these customers. The program further provides for a "transition adjustment" for non-residential customers that choose to purchase energy at market prices from investor-owned utilities or from ESSs. Such charges or credits reflect the above-market or below-market cost, respectively, of energy resources owned or purchased by the utility and are designed to ensure that such costs or benefits do not unfairly shift to the utility's remaining energy customers. Residential and small commercial and industrial customers can purchase electricity from PGE from a "portfolio" of rate options that include a basic cost-of-service rate, a time-of-use rate, and renewable resource rates.

In 2006, the three ESSs registered to transact business with PGE served a total of 25 customers with a total average load of approximately 125 MWa, representing about 8% of PGE's non-residential load and 5% of the Company's total retail load. In addition, a total of 59 commercial and industrial customers were receiving service from PGE under market-based pricing options at the end of 2006. Approximately 50,000 customers have chosen renewable energy options and approximately 1,800 customers have chosen the time-of-use option.

PGE also offers an option by which certain large non-residential customers may, for a minimum three-year or five-year term, elect to be removed from cost-of-service pricing, with energy supplied by an ESS or at a daily market rate by PGE. Two customers, with a total load of approximately 10 MWa, have chosen the five-year option; one began receiving service from PGE in 2003 and the other began receiving service from an ESS in 2004. Three additional customers, with a total load of approximately 145 MWa, have elected to receive service from ESSs beginning in 2007 under the three-year or five-year options. PGE estimates that customers with a total average load of approximately 270 MWa will receive energy from ESSs in 2007. While these "direct access" customers purchase their electricity from other suppliers, PGE continues to deliver energy to these customers and is not adversely impacted financially.

The restructuring law also provides for a 10-year Public Purpose Charge, equal to 3% of retail revenues, designed to fund cost-effective conservation measures, new renewable energy resources, and weatherization measures for low-income housing. In addition, the law provides for low-income electric bill assistance.

In accordance with the restructuring law and an order from the OPUC, PGE deferred certain costs related to implementation of the restructuring plan for recovery in electricity prices. Recovery of these costs is continuing, with unrecovered costs totaling approximately \$11 million at December 31, 2006.

PGE continues to operate as a cost-based regulated electric utility, for which revenue requirements are determined based upon the cost to serve customers, including a reasonable rate of return to the Company, and remains obligated to provide full ("bundled") service to all of its customers. PGE's most recent general rate filings with the OPUC, in 2001 and 2006, were both based upon this cost-of-service model. At this time, the large majority of PGE's customers continue to take service under rate tariff schedules determined by the cost of service.

While PGE continues to meet the criteria of Statement of Financial Accounting Standards (SFAS) No. 71, Accounting for the Effect of Certain Types of Regulation, and currently applies its provisions to reflect the effects of rate regulation in its financial statements, the Company periodically assesses the applicability of the statement to its business, or separable portions thereof. These assessments consider both the current and anticipated future rate environment and related accounting guidance, as outlined in SFAS No. 101, Regulated Enterprises - Accounting for the Discontinuation of Application of SFAS No. 71, and Emerging Issues Task Force (EITF) Issue 97-4, Deregulation of the Pricing of Electricity - Issues Related to the Application of SFAS No. 71 and SFAS No. 101.

#### Integrated Resource Plan

PGE's Integrated Resource Plan (IRP), required by the OPUC, describes the Company's strategy to meet the long-term electric energy needs of its customers, with emphasis on supply reliability, price stability, risk reduction, environmental stewardship, and cost effectiveness. Planning for future resources is guided by PGE's objective to meet its load requirements with supply from its own generating resources (both existing and new) and mid- to long-term power contracts.

PGE has undertaken a process to procure approximately 790 MWa in energy resources (960 MW of capacity), as well as additional capacity resources, as recommended in the Company's Integrated Resource Final Action Plan acknowledged by the OPUC in July 2004.

In accordance with that acknowledgement, the Company has entered into the following power purchase agreements:

- A ten-year purchase agreement for 93 MWa, which began in 2006;
- A thirty-year purchase power agreement for approximately 27 MWa (75 MW capacity) of wind generated power, which began in December 2005;
- Two five-year agreements, consisting of a 25 MW on-peak tolling agreement that began in January 2005, and a power purchase agreement for 25 MWa, which began in late 2006; and,
- Capacity agreements totaling 400 MW, extending from early 2005 to 2011.

PGE's Final Action Plan also included construction of a 350 MWa natural gas-fired plant at the Company's Port Westward site. Construction of the plant began in February 2005 and is expected to go into service in late April 2007. The plant is expected to have a total capacity of approximately 400 MW, including 25 MW from duct firing.

In November 2006, PGE executed an agreement to acquire 76 wind turbines for phase one construction of the Biglow Canyon Wind Farm. The first phase of the project will have a total capacity of 125 MW (48 MWa), with completion expected by December 2007. In combination with an existing wind contract, the Biglow Canyon Wind Farm project will fulfill PGE's 200 MW wind power target contained in the Company's Integrated Resource Final Action Plan.

Other acknowledged actions include:

- Savings of 55 MWa from energy efficiency measures funded by the Energy Trust of Oregon;
- Upgrades to existing plants and contract extensions totaling 60 MWa;
- Acquisition of 30-35 MW of dispatchable standby generation; and,
- Short-term market acquisitions of up to 125 MWa.

The OPUC's 2004 order acknowledging PGE's Integrated Resource Final Action Plan requires that, in addition to specific energy resource acquisitions, the Company address constraints on competitive renewable development in the region, work with the Bonneville Power Administration (BPA) and others to develop transmission access to additional wind (and other) resources at a reasonable price, and demonstrate that the Company has taken measures to acquire, option, or retain cost effective transmission capacity. PGE is actively engaged in regional discussions regarding constraints to competitive renewable development and is evaluating various transmission options that would result in additional capacity.

At the request of the Company, the OPUC agreed that, due to the continuing execution of the current Integrated Resource Final Action Plan, no IRP for the year 2006 would be required. PGE currently plans to file a new IRP with the OPUC in the second quarter of 2007.

#### Federal Wholesale and Transmission Regulation

In 1998, the FERC granted PGE authority to sell wholesale power at market-based rates. In May 2005, following review of an updated market power analysis submitted by the Company (required of jurisdictional utilities), the FERC granted reauthorization of PGE's market-based rate authority for the period 2005-2008.

In 1999, the FERC issued Order No. 2000 in a continued effort to more efficiently manage transmission, create fair pricing policies, and encourage competition by providing equal access to the nation's electric power grids. The order requires all owners of electricity transmission facilities to file a proposal to join a Regional Transmission Organization or provide reasons that prevent such a filing. In response to this order, the BPA and certain western utilities, including PGE, filed an initial proposal with the FERC to form a regional non-profit transmission organization that would operate the transmission system and manage pricing in the Pacific Northwest and portions of other western states. However, the organization (named Grid West) was dissolved in April 2006 after several major transmission owners elected to withdraw from the organization. As a major transmitting utility, PGE continues to participate in other transmission restructuring efforts to enhance operations of the regional system. The Company will monitor and engage in these efforts, although there remains considerable uncertainty regarding their further development.

In 2005, the Energy Policy Act of 2005 was signed into law. The new law repealed the Public Utility Holding Company Act of 1935 and significantly revised the Federal Power Act and Natural Gas Act. The law gives the FERC increased statutory authority to implement its stated goals, including mandatory transmission and reliability standards and enhanced oversight of power and transmission markets (including protection against market manipulation). The law also enacted tax incentives for the development of renewable and cleaner-fuel electric generating resources and for other electric and gas related purposes and substantially changed the qualifying facility provisions of the Public Utility Regulatory Policies Act of 1978.

#### City of Portland Investigation

The City of Portland has indicated that it may pursue ratemaking for PGE's retail customers who reside within the City's boundaries. In September 2005, the Portland City Council approved a resolution directing the City Attorney and

City staff to obtain from PGE information regarding the collection and payment of utility income taxes. The City of Portland stated that it believes its City Charter provides it with authority for this request. PGE voluntarily provided extensive financial and operational data to the City of Portland. The City of Portland subsequently broadened its inquiry to include PGE's power trading activities in 2000 and 2001 and requested that PGE provide many additional documents and records, and on March 23, 2006 issued a subpoena to PGE seeking numerous records and documents. PGE determined that there are a number of legal and practical issues concerning the City of Portland's subpoena and other requests for additional information, and has declined to provide any additional data to the City of Portland while those issues remain unresolved. On April 21, 2006, PGE filed a complaint in Multnomah County Circuit Court seeking clarity on whether the City of Portland has investigatory and ratemaking authority. The City of Portland has agreed not to seek enforcement of the subpoena while this case is pending.

## Retail and Wholesale Competition

### General

Restructuring of the electric industry continues to move slowly at both the national level and in the Pacific Northwest. PGE maintains its focus on commitment to service excellence while providing increased choices for its retail customers.

### Retail

PGE conducts retail electric operations exclusively in Oregon within a state-approved service area. Competitors within the Company's service territory include the local natural gas company, which competes for the residential and commercial space and water heating market, and fuel oil suppliers, which compete primarily for residential space heating customers. In addition, commercial and industrial customers are allowed direct access to competing ESSs in accordance with Oregon's electricity restructuring law, related regulations, and PGE's tariff. PGE currently offers all customers regulated cost-of-service and other pricing options. The Company does not operate as an ESS.

### Wholesale

PGE participates in the wholesale energy marketplace in order to manage its power supply risks and acquire the necessary electricity and fuel to meet the needs of its retail customers and administer its current long-term wholesale contracts. The amount of surplus electric generating capability in the western United States, the amount of annual snow pack and its impact on hydro generation, the number and credit quality of wholesale marketers and brokers participating in the energy trading markets, the availability and price of natural gas as well as other fuels, and the availability and pricing of electric and gas transmission all contribute to and have an impact on the wholesale price and availability of electricity. The Company currently has authority under its FERC tariff to charge market-based rates for wholesale energy sales.

## Power Supply

To meet its customers' energy needs, PGE relies upon its existing base of generating resources, long-term power contracts, and power and fuel purchases of up to five years in duration that together provide flexibility to respond to consumption changes and Oregon's electricity restructuring law.

Northwest hydro conditions have a significant impact on the region's power supply, with water conditions significantly impacting PGE's cost of power and its ability to economically displace more expensive thermal generation and spot market power purchases. Current forecasts indicate near normal hydro conditions for 2007.

In addition, natural gas and coal, used to fuel the Company's thermal generating plants, are subject to price volatility. PGE uses natural gas forward, swap, option, and futures contracts to manage its exposure to volatility in natural gas

prices and will continue to monitor its exposure to changing prices for coal and natural gas.

For further information, see "Power and Fuel Supply" in Item 7. - "Management's Discussion and Analysis of Financial Condition and Results of Operation."

#### Generating Capability

PGE's existing hydroelectric, coal-fired, and gas-fired plants are important resources for the Company, providing 1,974 MW of generating capability (see Item 2. - "Properties" for a full listing of PGE's generating facilities). The Company's lowest cost generating resources are its five FERC licensed hydroelectric projects that incorporate eight powerhouses on the Clackamas, Sandy, Deschutes, and Willamette rivers in Oregon. For further information, see "Hydro Relicensing" in Item 2. - "Properties".

PGE is currently constructing a 400 MW natural gas-fired plant at the Company's Port Westward site. Construction of the plant began in February 2005 and is expected to go into service in late April 2007.

In November 2006, PGE executed an agreement to acquire 76 wind turbines for construction of the first phase of the Biglow Canyon Wind Farm. Each of the turbines will have the capacity to generate 1.65 MW of electricity, for a total of approximately 125 MW. Construction is planned to begin in the first half of 2007, with completion expected by the end of the year.

#### Purchased Power

PGE supplements its own generation with long-term and short-term wholesale contracts as needed to meet its retail load requirements or provide the most economic mix of resources on a variable cost basis. The Company has long-term power contracts with four hydroelectric projects on the mid-Columbia River, which provide approximately 567 MW of firm capacity. PGE also has firm contracts, ranging from one to thirty years, to purchase 1,175 MWa of power from other counterparties, other Pacific Northwest utilities, and the Confederated Tribes of the Warm Springs Reservation of Oregon, and has a 30-year agreement for 27 MWa of wind capacity with an independent power producer. In addition, PGE has an exchange contract with a summer-peaking California utility to help meet the Company's winter-peaking requirements, and an exchange contract with another Northwest utility to help meet the Company's summer-peaking requirements. These resources, along with short-term contracts, provide the Company with sufficient firm capacity to serve its peak loads. For further information, see "Power and Fuel Supply" in Item 7. - "Management's Discussion and Analysis of Financial Condition and Results of Operation."

#### Regional System Reliability

PGE relies on wholesale market purchases within the Western Electricity Coordinating Council (WECC) in conjunction with its base of generating resources to supply its resource needs and maintain system reliability. The WECC, a regional electric reliability organization, provides coordination for operating and planning a reliable and adequate electric power system for the western continental United States, Canada, and Mexico. It further supports competitive power markets, helps assure open and non-

discriminatory transmission access among members, provides a forum for resolving transmission access disputes, and provides an environment for coordinating the operating and planning activities of its members. The WECC area includes 14 western states, with peak loads that occur at different times of the year. Energy loads in California and the Southwest peak in the summer due to air conditioning use, while northern loads peak during winter heating months. According to the WECC's most recently published 10-Year Coordinated Plan Summary, its members, which serve a population of approximately 71 million, will have sufficient capacity margin to meet forecast demand and energy requirements through the year 2014, assuming the timely completion of planned new generation. The Northwest Power Pool (NWPP) area of the WECC, which contains significant hydro generation, is comprised of all or major portions of the states of Oregon, Washington, Idaho, Montana, Nevada, Utah, and Wyoming, and the Canadian provinces of British Columbia and Alberta. According to NWPP forecasts, hourly peak demand and annual energy requirements in the NWPP through 2014 are projected to grow at annual rates of 1.7% and 1.9%, respectively. The ability of the NWPP to meet peak demand is expected to be adequate through 2014. The reserve margins indicated above would be used to cover such items as unplanned outages of generating facilities, changes in the availability of hydro generation for peak use, required operating reserves, and the potential adverse impact of severe weather events on both generating capabilities and retail demand.

The Pacific Northwest peak season historically occurs in the winter, when home and business heating and lighting cause the highest demand. Due to unusually warm weather and increased air conditioning, PGE's 2006 peak load occurred in July. This all-time "summer peak" was 3,706 MW, of which approximately 39% was met through short-term wholesale electricity purchases. PGE's all-time high net system load peak of 4,073 MW occurred in December 1998.

On December 31, 2006, PGE's total firm resource capacity, including short-term purchase agreements, was approximately 4,911 MW (net of short-term sales agreements of 1,081 MW).

#### Restoration of Salmon Runs

Populations of many salmon species in the Pacific Northwest have shown significant decline over the last several decades. Several of these species have been granted protection under the federal Endangered Species Act (ESA). Long-term recovery plans for these species include major operational changes to the region's hydroelectric projects. The biggest change thus far has been a modification in the timing of stored water releases and a spill program to assist juvenile salmon at the federal dams located in the Columbia River and Snake River basins. The result of these changes has been a loss of some hydroelectric energy generation and seasonal shifting of other hydroelectric generation from the fall and winter periods to the spring and summer periods.

PGE continues to evaluate the impact of current and potential ESA listings on the operation of its hydroelectric projects on the Deschutes, Sandy, Clackamas, and Willamette rivers. The Company's consultation with the National Marine Fisheries Service and the United States Fish and Wildlife Service has identified opportunities for the protection of fish runs on those rivers where PGE operates. ESA consultations on PGE's Clackamas River project, completed by the agencies in 2003, will be in effect until a new license is granted by the FERC. A new FERC license for the Clackamas River Project is currently anticipated by 2009. The Biological Opinion for the Bull Run Project on the Sandy River, received in 2003, will cover the project's operations and decommissioning scheduled for 2007 and 2008.

In 2005, PGE received Biological Opinions and Incidental Take Statements for the Company's Willamette River (Sullivan) and Deschutes River (Pelton Round Butte) projects associated with the issuance of new FERC licenses for these projects. The Biological Opinion and Incidental Take Statement, which provide authorization to licensees for the take of listed species consistent with terms and conditions identified in the consultation, are generally issued at the conclusion of the ESA consultation process associated with obtaining new or amended FERC hydropower licenses.

#### Fuel Supply

PGE acquires fuel supply contracts to support planned operation of thermal generating plants. Flexibility in contract terms allows for the most economic dispatch of PGE's thermal resources relative to the market price of wholesale power.

### Coal

#### Boardman

PGE has negotiated purchase agreements that provide coal for Boardman's operating requirements through 2008. Available coal supplies are sufficient to meet future requirements of the plant. The coal, obtained from surface mining operations in Wyoming and subject to federal, state, and local regulations, is delivered by rail under two separate 10-year contracts, the terms of which began January 1, 2004. Coal purchases in 2006, totaling 1.9 million tons, contained approximately 0.3% of sulfur by weight. Coal deliveries in 2006 were lower than normal due to an extended outage of Boardman during the first half of the year. Utilizing low sulfur coal, the plant emitted less than the limit allowed by the U.S. Environmental Protection Agency (EPA) of 1.2 pounds of sulfur dioxide (SO<sub>2</sub>) per MMBtu.

#### Colstrip

Coal for Colstrip Units 3 and 4, located in southeastern Montana, is obtained from an adjacent mine under a contract that expires in 2019. The contract requires that the coal not exceed maximum sulfur content of 1.5% by weight. In 2006, actual sulfur content for coal used at Colstrip ranged from approximately 0.68% to 0.81% by weight. Available coal supplies are sufficient to meet future requirements of the plant. Coal purchases for PGE's share of Colstrip Units 3 and 4 totaled 1.4 million tons in 2006. Utilizing wet scrubbers to minimize (SO<sub>2</sub>) emissions, the plant operated in compliance with EPA's source-performance standards.

### Natural Gas

PGE makes long-term, short-term, and spot market purchases to secure transportation capacity and mid-term, short-term and spot market purchases to secure natural gas supplies sufficient to fuel plant operations. PGE re-markets natural gas and transportation capacity in excess of its needs.

PGE owns 79% of the Kelso-Beaver Pipeline, which directly connects both its Beaver and Port Westward generating plants to Northwest Pipeline, an interstate gas pipeline operating between British Columbia and New Mexico. PGE has been granted a blanket transportation certificate by the FERC that authorizes the Company to transport natural gas for others under a Part 284 blanket transportation certificate.

Currently, PGE transports gas on the Kelso-Beaver Pipeline for its own use under a firm transportation service agreement, with capacity offered on an interruptible basis to the extent not utilized by the Company.

#### Beaver and Port Westward

Firm gas supplies for Beaver and Port Westward (expected to go into service in late April 2007) are purchased up to 60 months in advance, based on anticipated operation of the plants. PGE has access to 87,000 Dth/day of firm gas transportation capacity to serve the two plants. In addition, PGE has contractual access, through April 2017, to natural gas storage in Mist, Oregon, from which it can draw in the event that gas supplies are interrupted or if economic factors require its use. PGE believes that sufficient market supplies of gas are available to fully meet anticipated requirements of Beaver and Port Westward in 2007.

#### Coyote Springs

The Coyote Springs generating station utilizes 41,000 Dth/day of firm transportation capacity on three pipeline systems accessing gas fields in Alberta, Canada. Firm gas supplies for Coyote Springs, based on anticipated operation of the plant, are typically purchased up to 60 months in advance. PGE believes that sufficient market supplies of gas are available to fully meet requirements of Coyote Springs in 2007.

### Oil

#### Beaver

The Beaver generating station has the capability to operate at full capacity on No. 2 diesel fuel oil when it is economic or if the plant's natural gas supply is interrupted. To ensure the plant's continued operability under such circumstances, PGE had an approximate 12-day supply of oil at the plant site at December 31, 2006.

#### Coyote Springs

The Coyote Springs plant has the capability to operate on oil, although such capability has been deactivated in order to optimize natural gas operations. Should the plant's oil capability be restored, a fuel storage tank, capable of holding sufficient oil for 50 hours of operation, is available at the plant site.

### Environmental Matters

PGE operates in a state recognized for environmental leadership. The Company's policy of environmental stewardship emphasizes minimizing both environmental risk and waste in its operations, along with promoting the wise use of energy.

### Regulation

PGE's operations are subject to a wide range of environmental protection laws covering air and water quality, noise, waste disposal, and other environmental issues. The EPA, along with state agencies and departments such as the Oregon Environmental Quality Commission (OEQC), the Oregon Department of Environmental Quality (DEQ), the Oregon Department of Energy, and the EFSC, have direct jurisdiction over environmental matters. Environmental matters regulated by these agencies include the siting and operation of generating facilities and the accumulation, cleanup, and disposal of toxic and hazardous wastes.

### Harborton

A 1997 investigation of a portion of the Willamette River known as the Portland Harbor, conducted by the EPA, revealed significant contamination of sediments within the harbor. Subsequently, the EPA has included Portland Harbor on the federal National Priority list pursuant to the federal Comprehensive Environmental Response, Compensation, and Liability Act (Superfund). In 2000, PGE, along with sixty-eight other companies on the Portland Harbor Initial General Notice List, received a "Notice of Potential Liability" with respect to the Portland Harbor Superfund Site. Sufficient information is currently not available to determine either the total cost of investigation and remediation of the Portland Harbor or the liability of Potentially Responsible Parties (PRPs), including PGE. Management believes that the Company's contribution to the sediment contamination, if any, would qualify it as a de minimis PRP.

For further information, see "Environmental Matters" in Item 7. - "Management's Discussion and Analysis of Financial Condition and Results of Operation."

### Harbor Oil

Harbor Oil, Inc. (Harbor Oil), located in north Portland, was utilized by PGE to process used oil from the Company's power plants and electrical distribution system from at least 1990 until 2003. Harbor Oil is also utilized by other entities for the processing of used oil and other lubricants. A 2003 investigation conducted by the EPA revealed elevated levels of contaminants, including metals, pesticides, and polychlorinated biphenyls (PCBs) on the Harbor Oil site. Subsequently, the EPA included Harbor Oil on the federal National Priority List as a federal Superfund site. In 2005, PGE received a Special Notice Letter for Remedial Investigation/Feasibility Study from the EPA, in which the Company was named as one of fourteen PRPs with respect to the Harbor Oil site. PGE, along with other PRPs, is negotiating an Administrative Order of Consent with the EPA to conduct a Remedial Investigation/Feasibility Study. Sufficient information is currently not available to determine either the total cost of investigation and remediation of the Harbor Oil site or the liability of PRPs, including PGE.

For further information, see "Environmental Matters" in Item 7. - "Management's Discussion and Analysis of Financial Condition and Results of Operation."

### Air Quality

PGE's operations, principally its fossil-fuel electric generation plants, are subject to the federal Clean Air Act (CAA) and other federal regulatory requirements. State governments also monitor and administer certain portions of the CAA and must set standards that are at least equal to federal standards; Oregon's air quality standards exceed federal standards. Primary pollutants addressed by the CAA that affect PGE are SO<sub>2</sub>, nitrogen oxides, carbon monoxide, and particulate matter. PGE manages its emissions by the use of low sulfur fuel, emission controls, emission monitoring, and combustion controls. Required operating permits have been obtained for all thermal generating facilities operated by PGE.

The SO<sub>2</sub> emissions allowances awarded under the CAA, along with expected future annual allowances, are sufficient to operate Boardman at a 60% to 67% capacity. PGE has acquired additional emissions allowances, which, in combination with the allowance awards, will allow the operation of the Boardman plant at forecasted capacity for at least the next ten years.

In accordance with new federal regional haze rules, the DEQ is conducting an assessment of emission sources pursuant to a Regional Haze Best Available Retrofit Technology (RH BART) process. Several other states are conducting a similar process. Those sources determined to cause, or contribute to, visibility impairment at protected areas will be subject to an RH BART Determination.

In May 2005, the EPA established the Clean Air Mercury Rule (CAMR), which regulates mercury emissions from the nation's coal-fired electric generating plants. The CAMR includes a federal "cap-and-trade" program (scheduled to begin in 2010), that establishes a cumulative total ("cap") of mercury emissions from all electric generating plants in the United States and assigns to each state a mercury emissions "budget." Individual states had the choice of adopting this model or establishing their own programs.

In December 2006, the OEQC adopted the Utility Mercury Rule, which limits mercury emissions from new coal-fired power plants and requires installation of mercury technology on the Boardman plant and requires the plant to reduce its mercury emission by 90% by July 1, 2012.

PGE has a 20% ownership interest in Colstrip Units 3 and 4, which are operated by PPL Montana, LLC (PPL Montana). PPL Montana and the EPA are discussing possible emission control and monitoring requirements involving all Colstrip units to address certain issues that have arisen since late 2003, including those related to the CAA. Current emissions allowances are sufficient to operate Colstrip, which utilizes wet scrubbers.

In October 2006, the Montana Board of Environmental Review adopted final rules on mercury emissions from coal-fired generating units, including Colstrip, which set strict mercury emission limits by 2010 and established a review process to ensure that such facilities continue to utilize the latest mercury emission control technology.

It is expected that the CAA and related state air quality standards will require installation of additional emission controls at the Company's thermal generating plants. For further information, see "Environmental Matters" in Item 7. - "Management's Discussion and Analysis of Financial Condition and Results of Operation."

#### Item 1A. Risk Factors

The following risk factors, in addition to other factors and matters discussed in this report, have been identified as those that could have a significant impact on PGE's financial and operating results and should be considered when evaluating the Company.

PGE is subject to the risk that the OPUC will not allow sufficient recovery of the Company's costs and thus not provide a reasonable rate of return to shareholders.

The rates that the OPUC allows PGE to charge for its retail services is the major factor in determining the Company's operating income, financial position, liquidity, and credit ratings. The OPUC has the authority to disallow recovery of any costs that it considers excessive or imprudently incurred. Further, the regulatory process does not provide assurance that PGE will be able to achieve earnings levels authorized.

The OPUC order in the Company's recent general rate case approved the use of a power cost adjustment mechanism by which PGE can adjust future rates to reflect differences between each year's forecasted and actual net variable power costs. However, use of the approved cost sharing ("deadband") methodology will require that PGE absorb some power cost increases before the Company is allowed to recover any amount from customers. Accordingly, future application of the power cost adjustment mechanism is expected to only partially mitigate the potentially adverse financial impact of unplanned generating plant outages, severe weather, reduced hydro availability, and volatile wholesale energy prices.

Unplanned outages at PGE's generating plants can increase the cost of power required to serve customers, as the cost of replacement power purchased in the wholesale market generally exceeds the Company's cost of generation.

Unplanned outages at the Company's generating plants, such as the 2005-2006 outage at the Boardman coal plant, could result in replacement power costs greater than those power costs included in customer prices, and inability to recover such costs in future rates could again have a negative financial impact on the Company. As indicated above, application of a newly-approved power cost adjustment mechanism can be expected to partially offset adverse financial impacts of future unplanned outages at the Company's generating plants.

Weather conditions that reduce stream flows can adversely affect operating results.

PGE derives a portion of its power supply from its hydroelectric facilities and from those owned by certain public utility districts in the State of Washington and the City of Portland, with whom the Company has long-term power purchase contracts. Regional rainfall and snow pack levels affect stream flows and the resulting amount of generation available from these facilities. Shortfalls in low-cost hydro production will require increased generation from the Company's higher cost thermal plants and/or power purchases in the wholesale market, the adverse financial effects of

which are not expected to be fully mitigated by the Company's new power cost adjustment mechanism.

Wholesale energy markets are subject to forces that are often not predictable and which can result in price volatility, deterioration of liquidity, and general market disruption, adversely affecting PGE's costs and ability to manage its energy portfolio and procure required energy supply.

Wholesale electricity prices in the western United States are influenced primarily by factors related to supply and demand. These factors include the adequacy of generating capacity, scheduled and unscheduled outages of generating facilities, hydroelectric generation levels, prices and availability of fuel sources for generation, disruptions or constraints to transmission facilities, weather conditions, economic growth, and changes in technology. Volatility in wholesale energy markets can affect the availability and prices of purchased power and demand for energy sales. Changes in the creditworthiness of large wholesale customers can also affect PGE's variable power costs. Further, disruption in wholesale markets may result in a deterioration of market liquidity, increase the risk of counterparty default, affect the regulatory and legislative process in unpredictable ways, affect wholesale energy prices, and impair PGE's ability to manage its energy portfolio. Changes in wholesale energy prices also affect the market value of derivative instruments and unrealized gains and losses, as well as cash requirements to purchase electricity. Although the Company's power cost adjustment mechanism can be expected to partially mitigate the financial effects of adverse wholesale market conditions, cost sharing features of the mechanism will prevent full recovery in customer rates.

Market risk related to adverse fluctuations in the price of natural gas purchased as fuel for electricity generation can also impact the Company. PGE purchases natural gas in the open market or pursuant to short-term or variable-priced contracts as part of its normal operating business. If market prices rise, especially during periods when the Company requires greater than expected volumes that must be purchased at market or short-term prices, PGE may incur greater costs than projected. The Company may not be able to timely recover these increased costs through ratemaking.

The effects of weather on electricity usage can adversely affect financial results of operations.

Weather conditions can adversely affect PGE's revenues and costs and have an impact on the Company's financial and operating results. Temperatures outside the normal range can affect customer demand for electricity, with warmer-than-normal winters or cooler-than-normal summers reducing power sales and revenues. Particularly for residential customers, weather conditions are the dominant cause of usage variations from normal seasonal patterns. Severe weather can also disrupt energy delivery and damage the Company's distribution system.

Rapid increases in load requirements resulting from unexpected adverse weather changes, particularly if coupled with transmission constraints, could adversely impact PGE's cost and ability to meet the energy needs of its customers. Conversely, rapid decreases in load requirements could result in the sale of excess energy at depressed market prices.

PGE is subject to the adverse effects of storms, natural disasters, and similar operational risks that are common to the utility industry.

The Company has exposure to natural disasters that can cause significant physical damage to its transmission and distribution facilities. Such events can interrupt the delivery of electricity, increase repair and service restoration expenses, and reduce revenues. Such failures, if repeated or prolonged, can also affect customer satisfaction and the level of regulatory oversight. Although regulated utilities are required to provide service to all customers within their service territory and have generally been afforded liability protection against customer claims related to service failures, constraints on insurance recovery related to the above events can also negatively impact financial results.

PGE is exposed to risk related to performance of contractual obligations by its wholesale suppliers and customers.

As the Company relies on suppliers to deliver natural gas, coal and electricity, in accordance with short- and long-term contracts, failure to timely comply with existing contracts could disrupt PGE's ability to deliver electricity

and require the Company to incur additional expenses to meet the needs of its customers. In addition, as these contractual agreements expire, PGE may be unable to continue to purchase natural gas, coal or electricity on terms equivalent to those of current agreements.

PGE is subject to political processes that may adversely affect its business.

Certain customer groups and governments could attempt to acquire PGE facilities and equipment in the Company's allocated service territory through the use of public ownership initiatives, utilizing initiative petition and condemnation processes. In 2003 and 2004, such initiatives were advanced in four counties in which most of PGE's customers reside. Although they were rejected by the voters, there is no certainty that similar efforts will not again be attempted. In addition, the City of Portland has indicated that it may pursue ratemaking for PGE's retail customers who reside within the City of Portland boundaries.

Oregon law related to income taxes could result in refunds to PGE's customers and adversely impact the Company's earnings.

A law, passed by the Oregon legislature in 2005, adjusts the way that PGE and other Oregon investor-owned electric and gas utilities recover income tax expense from customers through revenues for utility services. SB 408 attempts to more closely match income tax amounts collected in revenues with the amount of income taxes paid to governmental entities by investor-owned utilities or their consolidated group.

In September 2006, the OPUC issued a final order that adopted permanent rules to implement SB 408. Based on its assessment of the order, PGE has revised its estimate of potential refunds to customers to be approximately \$42 million (including \$2 million of accrued interest) for fiscal year 2006 and has recorded a (pre-tax) reserve of such amount for the year.

PGE will continue to evaluate its options for changing or modifying the legislation and rules, and challenging any adjustment that follows for the 2006 tax year. As the ultimate outcome of these matters is uncertain, the above estimates are subject to change. For further information, see "Utility Rate Treatment of Income Taxes" in "Financial and Operating Outlook" of Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operation."

Regulations involving compliance with both new and existing environmental laws related to fish and wildlife could adversely affect PGE's results of operations.

A portion of PGE's total energy requirement is comprised of generation from hydroelectric projects on the Columbia, Clackamas, Deschutes, Willamette, and Sandy rivers. Operations of these projects are subject to extensive regulation related to the protection of fish and wildlife. The listing of various species of salmon, wildlife, and plants as threatened or endangered species has resulted in significant changes to federally-authorized activities, including those of hydroelectric projects. Salmon recovery plans could include further major operational changes to the region's hydroelectric projects, including those owned by PGE and those from which the Company purchases power under long-term contracts. In addition, new interpretations of existing laws and regulations could be adopted or become applicable to such facilities, which could further increase required expenditures for salmon recovery and endangered species protection and reduce the amount of hydro generation available to meet the Company's energy requirements.

Regulations involving compliance with state and federal laws related to emissions from thermal electric generating plants could adversely affect PGE's results of operations.

Oregon and federal regulators are currently reviewing air emissions from PGE's thermal generating plants in Oregon as part of separate regulatory processes related to haze, mercury, and the Company's air permits. Oregon regulators have adopted measures that will require installation of mercury controls at the Boardman coal plant. Additional

emissions controls may be required at PGE's Boardman coal plant, although specific measures will depend on the outcome of the reviews. Installation of such control measures will increase expenditures for PGE and its customers. In addition, Montana regulators have adopted stricter requirements related to mercury emissions that could impact the operations of Colstrip, in which PGE has a 20% ownership interest. Although the full impact of required state and federal remediation measures is not yet determinable, they could have an adverse effect on future operations, operating costs, and generating capacity at both Boardman and Colstrip.

PGE is exposed to risks that impact the Company's ability to acquire those facilities required to meet the electricity demands of its customers.

Increases in both the number of customers and the demand for energy will require continued expansion and reinforcement of PGE's generation, transmission, and distribution systems. Construction of new generating facilities may be affected by various factors, including unanticipated delays and cost increases, which could result in the disallowance of certain costs in the rate determination process. In addition, if construction projects are not completed according to specifications, reduced plant efficiency and higher operating costs could result. Equipment failure, the ability of generating plants to operate as intended, and other factors can result in plant performance that falls below expected levels. Cost and availability of fuel supplies, primarily natural gas and coal, can also impact the cost and output of the Company's thermal generating plants.

PGE faces regulatory and litigation risk with respect to recovery of the Company's investment in the closed Trojan Nuclear Plant.

There remains uncertainty regarding the ultimate outcome of legal and regulatory proceedings related to PGE's recovery of its investment in the Trojan Nuclear Plant, which was closed in 1993. In 1995, the OPUC granted PGE recovery of, and a rate of return on, the majority of the Company's investment in Trojan. Numerous challenges, appeals and reviews were subsequently filed in the courts on the issue of the OPUC's authority under Oregon law to grant recovery of, and a return on, the Trojan investment. The Oregon Court of Appeals has determined that the OPUC does not have the authority to allow PGE to recover a return on its Trojan investment and has remanded the case to the OPUC.

Pursuant to settlement agreements reached in September 2000 and approved by the OPUC, PGE's investment in Trojan was removed from the Company's balance sheet and is no longer included in rates charged to customers. The settlement agreements were subsequently challenged in both the courts and at the OPUC, with the case later remanded to the OPUC for action to reduce rates or order refunds.

Class action lawsuits were filed in 2003 seeking damages, on behalf of current and former PGE customers, resulting from the inclusion in customer rates of a return on Trojan during the period April 1995 through September 2000. In response to a ruling of the Oregon Supreme Court that the OPUC has primary jurisdiction to determine any remedies, through rate reductions or refunds, for these customers, the Marion County Circuit Court abated the class action proceedings in October 2006 for one year. For further information, see "Trojan Investment Recovery" in "Financial and Operating Outlook" of Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operation."

#### Item 1B. Unresolved Staff Comments

None.

#### Item 2. Properties

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PGE's principal plants and appurtenant generating facilities and storage reservoirs are situated on land owned by the Company in fee or land under the control of PGE pursuant to existing leases, federal or state licenses, easements, or other agreements. In some cases, meters and transformers are located on customer property. PGE leases its corporate headquarters complex, located in Portland, Oregon. The Indenture securing PGE's First Mortgage Bonds constitutes a direct first mortgage lien on substantially all utility property and franchises, other than expressly excepted property. PGE's service territory and generating facilities are indicated on the map below:

The following are generating facilities owned by PGE:

Facility	Location	Fuel	Net MW Capability At Dec. 31, 2006 (*)	
<u>Wholly Owned:</u>				

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Faraday	Clackamas River	Hydro	46	
North Fork	Clackamas River	Hydro	58	
Oak Grove	Clackamas River	Hydro	44	
River Mill	Clackamas River	Hydro	25	
Bull Run (a)	Sandy River	Hydro	22	
Sullivan (b)	Willamette River	Hydro	17	
Beaver	Clatskanie, OR	Gas/Oil	545	
Coyote Springs	Boardman, OR	Gas/Oil	243	
<u>Jointly Owned:</u>				
Boardman (c)	Boardman, OR	Coal	380	
Colstrip 3 and 4 (d)	Colstrip, MT	Coal	296	
Pelton (e)	Deschutes River	Hydro	73	
Round Butte (e)	Deschutes River	Hydro	<u>225</u>	
Total			<u>1,974</u>	

(\* ) PGE ownership share.

(a) Decommissioning planned for 2007-2008.

(b) Increased 1 MW in 2006 due to turbine upgrades.

(c) PGE operates Boardman and has a 65% ownership interest.

(d) PPL Montana, LLC operates Colstrip 3 and 4; PGE has a 20% ownership interest.

(e) PGE operates Pelton and Round Butte and has a 66.67% ownership interest.

Hydro Relicensing

PGE holds FERC licenses under the Federal Power Act for its hydroelectric generating plants.

The license for the Clackamas River projects expired in 2006. PGE filed an application with the FERC in 2004 to relicense the projects. A March 2, 2006 settlement agreement with the participating parties was also submitted to the FERC for review and approval. Until a new license is issued, PGE will operate under annual licenses from the FERC. For further information, see "Hydro Relicensing" in Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operation."

In October 2002, PGE entered into an agreement with state and federal agencies, conservation groups, and others regarding removal of the Company's 22 MW Bull Run hydroelectric project located in the Sandy River basin, including removal of the Marmot Dam in 2007 and the Little Sandy Dam in 2008. The FERC issued a surrender order in 2004 and an annual operating license in early 2005 that allows PGE to operate the project until the removal of Little Sandy Dam. PGE has fully recovered its remaining plant investment and is recovering about \$17 million in estimated decommissioning costs over a ten-year period that began in October 2001.

#### Port Westward

Construction of the Port Westward Generating Plant, a 400 MW natural gas-fired facility located in Clatskanie, Oregon is proceeding, with the plant expected to go into service in late April 2007.

#### Biglow Canyon Wind Farm

In November 2006, PGE executed an agreement to acquire 76 wind turbines for phase one construction of the Biglow Canyon Wind Farm, located in Sherman County, Oregon. The first phase of the project will have a total capacity of 125 MW (48 MWa), with completion expected by December 2007.

#### Transmission

PGE owns and has contractual access to transmission lines that deliver electricity from its Oregon plants to its distribution system in its service territory and also to the Northwest grid. The Company also has ownership in, and contractual access to, transmission lines that deliver electricity from the Colstrip plant in Montana to PGE. In addition, PGE owns approximately 16% of the Pacific Northwest Intertie, a 4,800 MW transmission facility between John Day, in northern Oregon, and Malin, in southern Oregon near the California border. This line is used primarily for interstate purchases and sales of electricity among utilities, including PGE.

### Item 3. Legal Proceedings

Citizens' Utility Board of Oregon v. Public Utility Commission of Oregon and Utility Reform Project and Colleen O'Neill v. Public Utility Commission of Oregon

**, Marion County Oregon Circuit Court, the Court of Appeals of the State of Oregon, the Oregon Supreme Court.**

Following the closing of Trojan, PGE, in its 1993 general rate filing, sought OPUC approval to recover through rates future decommissioning costs and full recovery of, and a rate of return on, its Trojan investment. PGE's request was challenged and PGE requested from the OPUC a Declaratory Ruling (Docket DR 10) regarding recovery of the Trojan investment and decommissioning costs. In August 1993, the OPUC issued a Declaratory Ruling in PGE's favor, citing

an opinion issued by the Oregon Department of Justice that current law gave the OPUC authority to allow recovery of, and a return on, its Trojan investment and future decommissioning costs. The Declaratory Ruling was appealed to the Marion County Circuit Court, which upheld the OPUC's Declaratory Ruling in November 1994. The Citizens' Utility Board (CUB) appealed the decision to the Oregon Court of Appeals.

In PGE's 1995 general rate case (Docket UE 88), the OPUC issued an order (1995 Order) granting PGE full recovery of Trojan decommissioning costs and 87% of its remaining undepreciated investment in the plant. The Utility Reform Project (URP) filed an appeal of the 1995 Order to the Marion County Circuit Court, alleging that the OPUC lacked authority to allow PGE to recover Trojan costs through its rates. The CUB also filed an appeal to the Marion County Circuit Court challenging the portion of the 1995 Order that authorized PGE to recover a return on its remaining undepreciated investment in Trojan.

In April 1996, the Marion County Circuit Court issued a decision that contradicted the Court's November 1994 ruling. The 1996 decision found that the OPUC could not authorize PGE to collect a return on its undepreciated investment in Trojan. The 1996 decision was appealed to the Oregon Court of Appeals, where it was consolidated with the earlier appeal of the 1994 decision.

In June 1998, the Oregon Court of Appeals ruled that the OPUC does not have the authority to allow PGE to recover a rate of return on its undepreciated investment in Trojan, but upheld the OPUC's authority to allow PGE's recovery of its undepreciated investment in Trojan and its costs to decommission Trojan (1998 Decision). The court remanded the matter to the OPUC for reconsideration of its 1995 Order in light of the court's decision.

In August 1998, PGE filed a Petition for Review with the Oregon Supreme Court seeking review of that portion of the 1998 Decision relating to PGE's return on its undepreciated investment in Trojan. The URP filed a Petition for Review with the Oregon Supreme Court seeking review of that portion of the 1998 Decision relating to PGE's recovery of its undepreciated investment in Trojan.

In September 2000, PGE, CUB, and the OPUC Staff settled proceedings related to PGE's recovery of its investment in the Trojan plant (Settlement). The URP did not participate in the Settlement and filed a complaint and requested a hearing with the OPUC, challenging PGE's application for approval of the accounting and ratemaking elements of the Settlement.

In March 2002, after a full contested case hearing (Docket UM 989), the OPUC issued an order (Settlement Order) denying all of URP's challenges and approving PGE's application for the accounting and ratemaking elements of the Settlement. URP appealed the Settlement Order to the Marion County Circuit Court.

On November 19, 2002, the Oregon Supreme Court dismissed PGE's and URP's Petitions for Review of the 1998 Decision. As a result, the 1998 Decision stands and the remand of the 1995 Order to the OPUC (1998 Remand) became effective.

In regards to the URP's appeal of the March 2002 Settlement Order, on November 7, 2003, the Marion County Circuit Court issued an opinion remanding the case to the OPUC for action to reduce rates or order refunds (2003 Remand). The opinion does not specify the amount or timeframe of any reductions or refunds. On February 9, 2004, PGE appealed the 2003 Remand to the Oregon Court of Appeals. The OPUC has also appealed.

On March 3, 2004, the OPUC re-opened Dockets DR 10, UE 88, and UM 989 and issued a notice of a consolidated procedural conference before an administrative law judge. On October 18, 2004, the OPUC affirmed the order (Scoping Order) issued by the administrative law judge defining the scope of the proceedings necessary to comply with the orders remanding this matter to the OPUC. The URP and Class Action Plaintiffs (see "Dreyer" below) filed an application with the OPUC for reconsideration of the Scoping Order, which the OPUC denied. On April 18, 2005, URP and Linda K. Williams filed a complaint in Marion County Circuit Court challenging the OPUC's affirmation of

the Scoping Order. On September 21, 2005, the Marion County Circuit Court granted the OPUC's motion to dismiss the complaint.

The OPUC combined the 1998 Remand and the 2003 Remand into one proceeding and is considering the matter in phases. The first phase addresses what rates would have been if the OPUC had interpreted the law to prohibit a return on the Trojan investment. The subsequent phases will address reconciling the results of the first phase with actual rates, and adjusting rates to the extent necessary. A decision is pending in the first phase of the proceeding. On November 15, 2006, PGE filed a motion with the OPUC to Consolidate Phases and Re-Open the Record. A ruling on the motion is pending.

On February 16, 2007, the Oregon Court of Appeals declined to reverse or abate the 2003 Remand and ordered the parties to file revised briefs with the Court of Appeals.

Dreyer, Gearhart and Kafoury Bros., LLC v. Portland General Electric Company

**, Marion County Circuit Court, Case No. 03C 10639; and Morgan v. Portland General Electric Company,  
Marion County Circuit Court, Case No. 03C 10640.**

On January 17, 2003, two class action suits were filed in Marion County Circuit Court against PGE on behalf of two classes of electric service customers. The Dreyer case seeks to represent current PGE customers that were customers during the period from April 1, 1995 to October 1, 2001 (Current Class) and the Morgan case seeks to represent PGE customers that were customers during the period from April 1, 1995 to October 1, 2001, but who are no longer customers (Former Class, together with the Current Class, the Class Action Plaintiffs). The suits seek damages of \$190 million for the Current Class and \$70 million for the Former Class, from the inclusion of a return on investment of Trojan in the rates PGE charges its customers.

On April 28, 2004, the plaintiffs filed a Motion for Partial Summary Judgment and on July 30, 2004, PGE also moved for Summary Judgment in its favor on all of Class Action Plaintiffs' claims. On December 14, 2004, the Judge granted the Plaintiffs' motion for Class Certification and Partial Summary Judgment and denied PGE's motion for Summary Judgment. PGE filed for an interlocutory appeal, which was rejected on February 1, 2005. On March 3, 2005, PGE filed a Petition for a Writ of Mandamus with the Oregon Supreme Court asking the Court to take jurisdiction and command the trial Judge to dismiss the complaints or to show cause why they should not be dismissed. On March 29, 2005, PGE filed a second Petition for an Alternative Writ of Mandamus with the Oregon Supreme Court seeking to overturn the Class Certification.

On August 31, 2006, the Oregon Supreme Court issued a ruling on PGE's Petitions for Alternative Writ of Mandamus abating these class action proceedings until the OPUC responds to the 2003 Remand.

On October 5, 2006, the Marion County Circuit Court issued an Order of Abatement in response to the ruling of the Oregon Supreme Court, abating the class actions for one year.

People of the State of Montana, ex rel. Mike McGrath, Attorney General of the State of Montana; Flathead Electric Cooperative, Inc., and Does 1 through 100, inclusive v. Williams Energy Marketing and Trading Company; Reliant Energy Services, Inc; Duke Energy Trading and Marketing, LLC; Mirant Corporation; Enron Energy Services, Inc.; Enron Power Marketing, Inc., Morgan Stanley Capital Group, Inc.; Powerex; El Paso Merchant Energy; American Electric Power; Avista Corporation; Portland General Electric Company; BP Energy; Goldman Sachs Group, Inc. and Does 1 through 100, Inclusive

**, Montana First Judicial District, Lewis and Clark County.**

On June 30, 2003, the Montana Attorney General filed a complaint in Montana state court against PGE and numerous named and unnamed generators, suppliers, traders, and marketers of electricity and natural gas in Montana. The complaint alleges unfair and deceptive trade practices in violation of the Montana Unfair Trade and Practices and Consumer Protection Act, deception, fraud and intentional infliction of harm arising from various actions alleged to have been undertaken in the western wholesale electricity and natural gas markets during 2000 and 2001. The relief sought includes injunctive relief to prohibit the unlawful practices alleged, treble damages, general damages, interest, and attorney fees. No monetary amount is specified. The case was removed to the U.S. District Court of Montana in July 2003 then remanded back to Montana state court in November 2003. The case is pending in state court while investigation is underway by the Montana Public Service Commission (MPSC) in Docket No. D2004.2.21. PGE is not included in the MPSC proceeding and has not yet been served in the state court case.

Wah Chang, a division of TDY Industries, Inc. v. Avista Corporation, Avista Energy, Inc., Avista Power, LLC, Dynegy Power Marketing, Inc., El Paso Electric Company, IDACORP, Inc., Idaho Power Company, IDACORP Energy L.P., Portland General Electric Company, Powerex Corporation, Puget Energy, Inc., Puget Sound Energy, Inc., Sempra Energy, Sempra Energy Resources, Sempra Energy Trading Corp., Williams Power Company, Inc.,

**United States District Court for the District of Oregon, Case No. 04-CV-00619-AS.**

On May 5, 2004, Wah Chang, a division of TDY Industries, (Wah Chang) filed a complaint in the U.S. District Court for the District of Oregon against PGE and fifteen other companies (Wah Chang Defendants) alleging that practices among the Wah Chang Defendants and/or Enron and others involving the generation, purchase, sale and transmission of electric energy, beginning in 1998 and continuing through 2001, were designed to communicate false or misleading information to participants in the energy market with the purpose of causing a shortage or appearance of a shortage in the generation of electricity, the appearance of congestion in the transmission of electricity, illegally raising the price of electricity, and fraudulently concealing illegal activities, all in violation of Federal and state antitrust statutes, the Racketeer Influenced and Corrupt Organization Act and for wrongful interference with their purchase contracts with PacifiCorp. No specific facts as to PGE's activities are alleged. Wah Chang seeks compensatory (\$30 million) and treble damages.

On February 11, 2005, the Court entered an order dismissing the case based on federal preemption of state law claims, the exclusive jurisdiction of the FERC over electricity markets, and the "filed rate doctrine" that holds that rates approved by a governing regulatory agency are reasonable and unassailable in judicial proceedings brought by ratepayers. On March 10, 2005, Wah Chang filed a notice of appeal in the Ninth Circuit Court of Appeals.

City of Tacoma, Department of Public Utilities, Dreyer, Light division v. American Electric Power Service Corporation, Quila Holdings, LLC, Aquila Power Corporation, Arizona Public Service Company, Automated Power Exchange, Inc., Avista Corporation, et. al.,

**United States District Court for the Western District of Washington, Case No. C07-5325 RBL.**

On June 7, 2004, the City of Tacoma, Washington filed a complaint in the U.S. District Court for the Western District of Washington against PGE and fifty-five other companies (Defendants) alleging that sometime during or before May 2000 and continuing through at least the end of 2001, the Defendants, acting in concert with some or all of thirty non-party co-conspirators, engaged in a pattern of activities involving the generation, purchase, sale and transmission of electric energy that violated the Sherman Antitrust Act and damaged the City of Tacoma in an amount estimated to exceed \$175 million. No specific facts as to PGE's activities are alleged. The City of Tacoma seeks recovery of three times the amount of actual damages proved at trial. PGE contends this lawsuit is precluded by the 2003 settlement of FERC Docket No. EL02-114, under which PGE paid Tacoma \$1.1 million and for which PGE obtained a complete release from all claims related to electricity prices during 2000-2001 from the California Parties, the City of Tacoma,

and others.

On February 11, 2005, the Court entered an order dismissing the case based on federal preemption of state law claims, the exclusive jurisdiction of the FERC over electricity markets, and the "filed rate doctrine" that holds that rates approved by a governing regulatory agency are reasonable and unassailable in judicial proceedings brought by ratepayers.

On March 10, 2005, a notice of appeal was filed in the Ninth Circuit Court of Appeals.

Ankeny, et al v. Northwestern Energy, L.L.C.; PPL Montana, LLC; Puget Sound Energy, Inc.; Avista Energy, Inc.; Pacific Energy GP, Inc.; Pacific Energy Group LLC.; Touch America Holdings, Inc.; PacifiCorp; Bechtel Construction Operations Incorporated; Western Energy Company; Portland General Electric Company; and John Does 1-20

**, Montana Second Judicial District, Rosebud County, Case No. DV 03-109.**

On May 5, 2003, residents of Colstrip, Montana, unions and businesses filed a suit against PGE and the other owners, designers and operators of the Colstrip coal-fired electric generation plants (Colstrip Project) in Montana alleging that holding and settling ponds at the Colstrip Project have leaked and contaminated groundwater. The plaintiffs allege nuisance, trespass, unjust enrichment, fraud, and negligence, and seek a declaratory judgment of nuisance and trespass, an order that the nuisance be abated, and an unspecified amount for damages, disgorgement of profits, and punitive damages.

On July 18, 2005, an Amended complaint was filed, which modifies the named plaintiffs and provides further clarification of the underlying claims.

Portland General Electric Co. v. City of Glendale (California).

**United States District Court for the District of Oregon, Case No. 051321.**

On August 25, 2005, the Company filed a complaint in the U.S. District Court for the District of Oregon against the City of Glendale (Glendale) seeking a declaratory ruling with respect to a long-term power sale and exchange agreement between the Company and Glendale entered into in 1988 which expires in 2012. Under the agreement, Glendale purchases firm system capacity up to 20 MW plus associated energy costs as scheduled by Glendale. Glendale has requested refunds, asserting that its price is capped so the Company cannot charge a price greater than the most expensive generation resource in the Company's inventory. Glendale has also asserted that the shutdown of Trojan was the equivalent of a sale of a Company resource that triggered a duty under the agreement to renegotiate price terms "to avoid a significant distortion in the Parties' bargain." The Company's complaint seeks a declaratory ruling that the Company does not owe Glendale any amounts under the agreement and that the decommissioning of Trojan does not require the Company to renegotiate payments due to it from Glendale. On October 18, 2005, Glendale filed a complaint with the FERC requesting the FERC to direct the Company to adjust the price and provide refunds of approximately \$23.3 million plus interest. The Court granted a stipulation filed by PGE and Glendale to stay the Court proceedings pending a decision by the FERC on its jurisdiction. On December 19, 2005, the FERC dismissed Glendale's complaint. Glendale then filed a request for a rehearing with the FERC, which was denied. A Notice of Appeal to the Ninth Circuit Court of Appeals was filed by Glendale on June 13, 2006. On December 6, 2006, the Ninth Circuit issued an order dismissing Glendale's petition for review of the FERC's December 19, 2005 Order dismissing Glendale's complaint. On January 31, 2007, Glendale filed a motion with the District Court to dismiss on

the basis that the FERC has exclusive jurisdiction.

City of Portland v. Oregon Public Utility Commission, Portland General Electric Company, Stephen Forbes Cooper, LLC, Citizens' Utility Board of Oregon, Industrial Customers of Northwest Utilities, Community Action Directors of Oregon, and Oregon Energy Coordinators Association.

**Court of Appeals of the State of Oregon Case No. A131268GE and Marion County Oregon Circuit Court, Case No. 06C11248.**

On February 10, 2006, the City of Portland appealed the December 14, 2005 order of the OPUC that authorized the issuance of new PGE common stock. Appeals were filed both in the Marion County Circuit Court and the Oregon Court of Appeals. On February 23, 2006, the OPUC filed a Motion to Hold Case in Abeyance with the Marion County Circuit Court in order to seek summary determination from the Court of Appeals regarding the proper court to hear the City of Portland's appeal. On April 6, 2006, the City of Portland filed to dismiss the action before the Oregon Court of Appeals, which the Court granted on July 19, 2006. On October 20, 2006, the City of Portland filed a Notice and Order of Voluntary Dismissal with the Marion County Circuit Court. On November 2, 2006, the Marion County Circuit Court dismissed the case.

Portland General Electric Company vs. City of Portland.

**Multnomah County Circuit Court for the State of Oregon, Declaratory Complaint Case No. 0604-04242, Writ Case No. 0604-04243.**

On March 23, 2006, the City of Portland issued a subpoena to PGE seeking records relating to financial reporting, income tax filings, Multnomah County Business Income Tax, wholesale power, FERC investigations, and others matters.

On April 21, 2006, PGE filed a Petition for Writ of Review and a Complaint for Declaratory Judgment with the Multnomah County Circuit Court. The Writ of Review action challenges the authority of the City of Portland to issue a subpoena for the production of voluminous documents related to PGE's business activities, and seeks an order quashing the same. The City of Portland has agreed not to seek enforcement of the subpoena while this case is pending.

The Complaint for Declaratory Relief was filed against both the City of Portland and the State of Oregon, seeking a declaration that any power of the City of Portland to regulate or investigate regulated utility rates has been preempted, superseded, and/or impliedly repealed. The City of Portland filed motions against both complaints on June 9, 2006. The Court granted the City of Portland's Motion to Dismiss the Writ of Review case. PGE has appealed that decision. Further argument on the Declaratory Relief claim was held in December 2006, with a trial date set for April 2007.

City of Portland v. Portland General Electric Company

**, Complaint before the Public Utility Commission of Oregon; Docket No. UM1262.**

On May 5, 2006, the City of Portland filed a complaint against PGE with the OPUC alleging that Enron and PGE should not have filed income taxes on a unitary basis under Oregon law. The complaint also alleged that PGE made certain cash payments to Enron under a tax allocation agreement which at the time had not been approved by the SEC, nor had PGE submitted the agreement to the OPUC, as provided under Oregon law.

On July 31, 2006, the OPUC issued an order dismissing two claims (that Enron and PGE should not have filed income taxes on a unitary basis under Oregon law and that PGE made certain cash payments to Enron under a tax allocation agreement which at the time had not been approved by the SEC) of the three claims made by the City of Portland. On November 17, 2006, the OPUC issued an order that granted summary judgment dismissing the remaining claim.

Portland General Electric Company v. International Brotherhood of Electrical Workers, Local No. 125 (Union Grievances)

In November 2001, grievances were filed by several members of the International Brotherhood of Electrical Workers (IBEW) Local 125, the bargaining unit representing PGE's union workers, with respect to losses in their pension/savings plan attributable to the collapse of the price of Enron's stock. The grievances, which allege that the losses were caused by Enron's manipulation of the stock, seek binding arbitration under Local 125's collective bargaining agreement on behalf of all present and retired bargaining unit members. The grievances do not specify an amount of claim, but rather request that the present and retired members be made whole. On May 24, 2002, PGE filed a Motion for Declaratory Relief in the Multnomah County Circuit Court for the State of Oregon, seeking a declaratory ruling that the grievances are not subject to arbitration under the collective bargaining agreement, that the grievances are preempted by the Employee Retirement Income Security Act of 1974 (ERISA), and that the conduct complained of is directed against Enron, not PGE.

On May 28, 2003, PGE filed a motion for summary judgment. On August 14, 2003, the Court granted PGE's motion for summary judgment finding that the grievances are not subject to arbitration. A final judgment was entered on October 6, 2003. On October 22, 2003, the IBEW filed an appeal to the Oregon Court of Appeals.

Both the U.S. District Court and the Bankruptcy Court approved the settlement of the class action litigation styled In re Enron Corp. Securities Derivative & "ERISA" Litigation, Pamela M. Tittle, et al. v. Enron Corp., et al, Civil Action No. H-01-3913, U.S. District Court for the Southern District of Texas, Houston Division (Tittle Action), and on September 13, 2005, the U.S. District Court entered a Bar Order in the Tittle Action, which specifically bars all claims arising out of that case, including the IBEW grievance proceeding. On July 5, 2006, the Oregon Court of Appeals held that the judgment in the Tittle Action precludes the IBEW from pursuing their grievances,