



TO: Commissioner Lee Beyer, Chair
Commissioner Ray Baum
Commissioner John Savage
Oregon Public Utility Commission

FROM: Portland City Commissioner Randy Leonard
Portland City Commissioner Erik Sten

DATE: March 2, 2006

SUBJECT: Portland General Electric

We appreciate the time that the Oregon Public Utility Commission (OPUC) is taking to discuss some concerns held by the Portland City Council regarding rates collected and taxes paid, among other issues.

As you know, the City of Portland has been focused on the future of Portland General Electric (PGE) for some time. PGE's role in Oregon's economic and community health is critical. In addition, we are faced with a rapidly changing energy industry and shifting economic forces thus requiring the need for Oregonian's to scrutinize ownership structures and business models in new and concentrated ways.

The City of Portland's only interest throughout this examination has been to protect its citizens, local businesses and the PGE ratepayers within our boundaries. PGE's rate increases have had and continue to have a damaging impact on our families and our local economy, so the City Council views this as an issue with some urgency. During our inquiries, we have come across a number of issues that raise great concern about whether these rates are unjustifiably high - issues that we believe require a full investigation and public airing. This is why we have requested the information from PGE and is why we are present today to work with you to get some key questions answered.

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The issues we have concern about include:

1. State and Federal tax payments to Enron, not paid to taxing authorities, and whether PGE kept taxes itself;
2. PGE's calculation of the Multnomah County Business Income Taxes and whether PGE calculated them correctly and an understanding of why they changed tax rates;
3. Waiver of claims against Enron;
4. An understanding of the relations between certain trading activities and the calculation of taxes;
5. The departure of Enron CEO Stephen Cooper and how that impacts the PUC's approval of Stephen Cooper LLC to distribute the stock; and
6. Possible distribution of \$106 Million in deferred taxes to Enron Creditors and \$54 Million in current taxes to Enron creditors.

Should our inquiry lead to conclusions that greater public intervention is necessary to protect ratepayers some of the remedies we believe are worth exploring include:

1. Taxes paid to Enron but not taxing authorities could be credited to PGE equity and rates correspondingly lowered; and
2. PGE converts to an LLC (a disregarded entity) prior to its distribution to Enron's creditors such that PGE LLC would receive a "step up" in the basis of its assets to the fair market value of the assets (as opposed to their fully depreciated value), achieving significant cost savings that could benefit ratepayers.

The Portland City Council, like most Oregonians, eagerly look forward to moving on from our Enron association. While the subject of today's hearing is not explicitly the spin-off of PGE, it is clear that some of these issues would be impacted by that occurrence. If millions of dollars has been inappropriately transferred from PGE to Enron, the distribution of stock may end any chance of retrieving the ratepayer's money back. Please note the use of the term "inappropriate" as opposed to illegal. There are many legal actions that PGE has taken that either the PUC or the City of Portland could nonetheless deem inappropriate (and requiring remedy) when gauging the net public benefit of the transfer.

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As we speak, further transfers of money from PGE to Enron are being prepared to beat the contemplated date of transfer. The timing of getting these questions answered is critical. Frankly, the response of PGE to our requests for information has been troubling to say the least: much of the information we asked for is easily obtained and critical to answering the very serious issues that have been raised.

Both the PUC and the City of Portland have the legal basis to pursue these questions under their ratemaking authority. Let us be very clear: the Portland City Council has no particular desire to conduct an in-depth inquiry. Our only interest is that each of these areas be thoroughly and publicly investigated to ensure that the maximum savings is achieved for ratepayers. Our fiduciary duty requires us to do no less. We are happy to work with the PUC to find the most effective and transparent way to achieve that end.

Again, we very much appreciate the Commission's consideration and time and look forward to working with you in the future.