

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2002

OR

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

For the Transition period from _____ v _____ 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**

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 .

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Definitions

Bankruptcy Court	United States Bankruptcy Court For The Southern District of New York
COBRA	Consolidated Omnibus Budget Reconciliation Act
CUB	Citizens' Utility Board
DEQ	Oregon Department of Environmental Quality
EFSC	Energy Facility Siting Council
Enron	Enron Corp., as Debtor and Debtor in Possession in Chapter 11, Case No. 01-16034 pending in the US Bankruptcy Court For The Southern District of New York
EPA	Environmental Protection Agency
ERISA	Employee Retirement Income Security Act
FERC	Federal Energy Regulatory Commission
IRC	Internal Revenue Code
IRS	Internal Revenue Service
kWh	Kilowatt-Hour
Mill	One tenth of one cent
MWh	Megawatt-hour
NW Natural	Northwest Natural Gas Company
NYMEX	New York Mercantile Exchange
OPUC or the Commission	Oregon Public Utility Commission
PBGC	Pension Benefit Guaranty Corporation
PGE or the Company	Portland General Electric Company
SFAS	Statement of Financial Accounting Standards issued by the Financial Accounting Standards Board
Trojan	Trojan Nuclear Plant
URP	Utility Reform Project
VEBA	Voluntary Employee Beneficiary Association
WTC	World Trade Center

PART I

Financial Information

Item 1. Financial Statements

<u>Portland General Electric Company and Subsidiaries</u>		
<u>Consolidated Statements of Income</u>		
(Unaudited)		
		Three Months Ended
		March 31,
	2002	2001

(In Millions)

Operating Revenues	\$	540	\$ 766
Operating Expenses			
Purchased power and fuel		333	578
Production and distribution		28	24
Administrative and other		38	28
Depreciation and amortization		42	45
Taxes other than income taxes		20	17
Income taxes		28	24
		489	716
Net Operating Income		51	50
Other Income (Deductions)			
Miscellaneous		2	(2)
Income taxes		1	2
		3	-
Interest Charges			
Interest on long-term debt and other		17	18
Interest on short-term borrowings		1	-
		18	18
Net Income before cumulative effect of a change in accounting principle		36	32
Cumulative effect of a change in accounting principle, net of related taxes of \$(6)		-	11
Net Income		36	43
Preferred Dividend Requirement		1	1
Income Available for Common Stock	\$	35	\$ 42

Portland General Electric Company and Subsidiaries**Consolidated Statements of Retained Earnings**

(Unaudited)

	Three Months Ended		
	March 31,		
	2002		2001
	(In Millions)		
Balance at Beginning of Period	\$	451	\$ 459
Net Income		36	43
		487	502
Dividends Declared			
Common stock		-	20
Preferred stock		1	1
		1	21
Balance at End of Period	\$	486	\$ 481

The accompanying notes are an integral part of these consolidated financial statements.

Portland General Electric Company and Subsidiaries

Consolidated Statements of Comprehensive Income

(Unaudited)

		Three Months Ended			
		March 31,			
		2002		2001	
		(In Millions)			
	Accumulated other comprehensive income (loss) - Beginning of Period	\$	(2)	\$	-
	Net Income	\$	36	\$	43
	Other comprehensive income, net of tax:				
	Unrealized gains (losses) on derivatives classified as cash flow hedges:				
	Unrealized holding gain due to cumulative effect of change in				
	accounting principle, net of related taxes of \$(23)		-		35
	Other unrealized holding net gains arising during the period,				
	net of related taxes of \$(3) and \$(3)		4		4
	Reclassification adjustment for contract settlements included in				
	net income, net of related taxes of \$5		-		(8)
	Reclassification adjustment in net income due to discontinuance				
	of cash flow hedges		1		-
	Reclassification of unrealized gains to FAS 71 regulatory				
	liability, net of related taxes of \$4		(5)		-
	Total other comprehensive income		-		31
	Comprehensive income	\$	36	\$	74
	Accumulated other comprehensive income (loss) - End of Period	\$	(2)	\$	31

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Balance Sheets

(Unaudited)

	March 31,		December 31,
	2002		2001
	(In Millions)		
Assets			
Electric Utility Plant - Original Cost			
Utility plant (includes construction work in progress of \$106 and \$97)	\$ 3,591		\$ 3,596
Accumulated depreciation	(1,683)		(1,643)
	1,908		1,953
Other Property and Investments			
Contract termination receivable	21		28
Receivable from parent (less allowance for uncollectible accounts of \$75 and \$74)	-		-
Nuclear decommissioning trust, at market value	29		30
Trust owned life insurance	82		81
Note receivable - Pelton Round Butte project sale	23		-
Miscellaneous	34		35
	189		174
Current Assets			
Cash and cash equivalents	48		8
Accounts and notes receivable (less allowance for uncollectible accounts of \$29 and \$29)	260		272
Unbilled and accrued revenues	65		80
Power cost mechanism	27		-
Assets from price risk management activities	131		170
Inventories, at average cost	45		44
Deposits	40		89
Prepayments and other	92		78
Deferred income taxes	9		6
	717		747
Deferred Charges			
Unamortized regulatory assets	577		582
Miscellaneous	15		18
	592		600
	\$ 3,406		\$ 3,474
Capitalization and Liabilities			
Capitalization			
Common stock equity			
Common stock, \$3.75 par value per share, 100,000,000			
shares authorized; 42,758,877 shares outstanding	\$ 160		\$ 160
Other paid-in capital - net	481		481
Retained earnings	486		451
Accumulated other comprehensive income (loss)	(2)		(2)
Cumulative preferred stock subject to mandatory redemption	29		29
Long-term obligations	766		769
	1,920		1,888
Commitments and Contingencies (Notes 4-9)			
Current Liabilities			
Long-term debt due within one year	159		173
Preferred stock maturing within one year	1		1
Short-term borrowings	169		174
Accounts payable and other accruals	208		250

Liabilities from price risk management activities		153		196
Customer deposits		5		5
Accrued interest		14		13
Dividends payable		1		1
Accrued taxes		14		15
Unamortized regulatory liabilities		20		42
		744		870
Other				
Deferred income taxes		368		339
Deferred investment tax credits		22		23
Trojan decommissioning and transition costs		200		205
Unamortized regulatory liabilities		38		44
Nonqualified benefit plan liabilities		64		62
Miscellaneous		50		43
		742		716
		\$ 3,406	\$	3,474

The accompanying notes are an integral part of these consolidated financial statements.

Portland General Electric Company and Subsidiaries				
Consolidated Statements of Cash Flow				
(Unaudited)				
		Three Months Ended		
		March 31,		
		2002		2001
		(In Millions)		
Cash Flows From Operating Activities:				
Reconciliation of net income to net cash provided by operating activities				
Net income		\$ 36		\$ 43
Non-cash items included in net income:				
Cumulative effect of a change in accounting principle, net of tax		-		(11)
Depreciation and amortization		42		45
Deferred income taxes		33		1
Net change from price risk management activities		2		(12)
Power cost adjustment		(28)		(4)
Other non-cash income and expenses (net)		(28)		7
Changes in working capital:				
Net margin deposit activity		49		74
(Increase) decrease in receivables		27		(41)
Increase (decrease) in payables		(42)		(54)
Other working capital items - net		(15)		(18)
Other - net		-		6
Net Cash Provided by Operating Activities		76		36
Cash Flows From Investing Activities:				
Capital expenditures		(30)		(53)
Other - net		17		4
Net Cash Used in Investing Activities		(13)		(49)
Cash Flows From Financing Activities:				
Net decrease in short-term borrowings		(5)		(16)
Repayment of long-term debt		(17)		(1)

Dividends paid		(1)		(21)
Net Cash Used in Financing Activities		(23)		(38)
Increase (Decrease) in Cash and Cash Equivalents		40		(51)
Cash and Cash Equivalents, Beginning of Period		8		60
Cash and Cash Equivalents, End of Period	\$	48	\$	9
Supplemental disclosures of cash flow information				
Cash paid during the period:				
Interest, net of amounts capitalized	\$	15	\$	15
Income taxes		-		35
The accompanying notes are an integral part of these consolidated financial statements.				

Notes to Consolidated Financial Statements (Unaudited)

Note 1 - Principles of Interim Statements

The interim financial statements have been prepared by PGE and, in the opinion of management, reflect all material adjustments which are necessary for a fair statement of results for the interim period presented. Such statements, which are unaudited, are presented in accordance with the SEC's interim reporting requirements, which do not include all the disclosures required by accounting principles generally accepted in the United States of America. Certain information and footnote disclosures made in the last annual report on Form 10-K have been condensed or omitted for the interim statements. Certain costs are estimated for the full year and allocated to interim periods based on estimates of operating time expired, benefit received or activity associated with the interim period; accordingly, such costs are subject to year-end adjustment. It is PGE's opinion that, when the interim statements are read in conjunction with the 2001 Annual Report on Form 10-K and the other reports filed with the Securities and Exchange Commission since its 2001 Form 10-K was filed, the disclosures are adequate to make the information presented not misleading.

Reclassifications - Certain amounts in prior years have been reclassified for comparative purposes. These reclassifications had no material effect on PGE's previously reported consolidated financial position, results of operations, or cash flows.

Note 2 - Sale of Pelton Round Butte Hydroelectric Project

Under terms of an agreement executed and approved by the OPUC in 2000, PGE sold a 33.33% undivided interest in its 410-MW Pelton Round Butte hydroelectric project to the Confederated Tribes of Warm Springs (Tribes) on January 1, 2002. The Company sold the project at a net book value of approximately \$28 million. After an adjustment for cost reimbursements, PGE received a five-year \$24.2 million interest-bearing note (8.5% per annum for 2002; 12.71% per annum for 2003-2006). Since the sales price did not include recovery of prior income tax benefits flowed to customers, the Company recorded a \$4 million regulatory asset for future ratemaking treatment, as authorized by the OPUC order; no gain or loss on the sale was recorded in income. The sale terminated the approximately \$10 million annual fees PGE had paid for the inundation of the Tribes' property along the Deschutes and Metolius rivers. Under terms of the agreement, the Tribes have options to purchase an additional 16.66% interest in 2021 and a 0.02% interest prior to the expiration of a 50-year joint license, for which the Company and the Tribes have an application pending before the FERC. PGE remains the operator of the project.

Note 3 - Price Risk Management

PGE engages in non-trading and trading activities by utilizing derivative financial instruments in its electric utility business. Under SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities (as amended), which the Company adopted on January 1, 2001, derivative instruments are recorded on the Balance Sheet as an asset or liability measured at estimated fair value, with changes in fair value recognized currently in earnings (in Purchased power and fuel), unless specific hedge accounting criteria are met. As contracts settle, sales are recorded in Operating revenues, with purchases, natural gas swaps and futures recorded in Purchased power and fuel on the Statement of Income. Upon adoption of SFAS No. 133 in the first quarter of 2001, PGE recorded after-tax gains of \$11 million and \$35 million in earnings and Other comprehensive income (OCI), respectively, from the cumulative effect of a change in accounting principle.

Special accounting for qualifying hedges allows a derivative's gains and losses to offset related results on the hedged item in the income statement. As discussed below, the effects of changes in the fair value of derivative instruments entered into to hedge the company's future retail resource requirements are subject to regulation and are deferred pursuant to SFAS No. 71, Accounting for the Effects of Certain Types of Regulation.

Non-Trading Activities

As PGE's primary business is to serve its retail customers, it enters into derivative instruments, including electricity forward and option, and natural gas forward and swap contracts to manage its exposure to commodity price risk and endeavor to minimize net

power costs for customers. Effective October 1, 2001, PGE's base rates changed as a result of an OPUC general rate order. The new rates reflect an update of PGE's net variable power costs to include electricity and natural gas contracts that will settle over the 15-month period ended December 31, 2002. In addition, the OPUC approved a 15-month power cost adjustment mechanism, effective October 1, 2001, to mitigate the Company's exposure to risk from power and natural gas price volatility. Such mechanism provides an incentive for the Company to continue to actively manage resources it has procured to serve its retail load and reduce retail power costs over the 15-month period October 1, 2001 to December 31, 2002. The mechanism provides that PGE recover or refund a portion of the difference in changes in power costs and energy revenues from baseline amounts as a result of continuing management of its resources and changes in the forecasted load. The collection or refund is expected to be completed over the same 15-month period through adjustments to retail customer rates. Each year thereafter, PGE will provide updates of its net variable power costs to the OPUC for inclusion in base rates for the year.

SFAS No. 133 requires unrealized gains and losses on derivative instruments that do not qualify for either the normal purchase and normal sale exception or hedge accounting to be recorded in earnings in the current period. OPUC-approved rates are based on the value of all the Company's resources, including derivative instruments that will settle during the 15-month period from October 1, 2001 to December 31, 2002. The timing difference between the recognition of gains and losses on derivative instruments and their realization and subsequent collection in rates is recorded as a regulatory asset or regulatory liability to reflect the effects of regulation under SFAS No. 71. As a result, in the third quarter of 2001 PGE began recording a regulatory asset or regulatory liability pursuant to SFAS No. 71 to offset the effects of unrealized gains and losses from changes in fair values of these contracts recorded prior to settlement. As contracts are settled, the regulatory asset or regulatory liability is reversed. PGE recorded net unrealized losses in earnings on natural gas swaps in its retail portfolio of \$4 million and \$1 million in the first quarter 2002 and 2001, respectively, with the 2002 loss fully offset by the recording of a SFAS No. 71 regulatory asset.

Derivative activities in the first quarter of 2002 from cash flow hedges consist of \$9 million in unrealized gains that were fully offset by the recording of a SFAS No. 71 regulatory liability. In the first quarter of 2001, a \$7 million gain in new contracts and changes in fair values was recognized in OCI; in addition, a \$13 million gain was reclassified to earnings from OCI for contracts that settled during the period. No amounts were reclassified into earnings as a result of hedge ineffectiveness in the first quarter of 2002 or 2001. Cash flow hedges of \$1 million were discontinued and reversed to Purchased power and fuel during the first quarter of 2002 due to the probability that the original forecasted transactions will not occur. As of March 31, 2002, the maximum length of time over which PGE is hedging its exposure to such transactions is approximately 1 1/2 years. The Company estimates that of the \$7 million of unrealized gains at March 31, 2002, \$3 million will be reclassified into earnings within the next twelve months.

New Accounting Guidance - On December 19, 2001, the FASB approved an interpretation issued by the Derivatives Implementation Group (DIG) outlined in SFAS No. 133 Implementation Issue No. C16, Scope Exceptions: Applying the Normal Purchases and Normal Sales Exception to Contracts that Combine a Forward Contract and a Purchased Option Contract. The guidance disallows normal purchases and normal sales treatment for commodity contracts (other than power contracts) that contain volumetric variability or optionality. PGE determined that there was no material impact of this implementation guidance, which became effective on April 1, 2002, on its financial statements.

Trading Activities

PGE trading activities utilize electricity forward and option contracts and natural gas forward, swap and futures contracts to take advantage of price movements in electricity and natural gas. Such activities are not subject to regulation. In the first quarter of 2002, PGE recorded in earnings a \$1 million loss from trading activities, consisting of \$2 million in unrealized losses and \$1 million in realized gains. In the first quarter of 2001, PGE recorded in earnings a \$1 million gain from trading activities, comprised of \$12 million of realized losses and \$13 million of unrealized gains.

Note 4 - Legal and Environmental Matters

Trojan Investment Recovery - In 1993, PGE sought full recovery of and a rate of return on its Trojan plant costs, including decommissioning, in a general rate case filing with the OPUC. The filing was a result of PGE's decision earlier in the year to cease commercial operation of Trojan as a part of its least cost planning process. In 1995, the OPUC issued a general rate order which granted the Company recovery of, and a rate of return on, 87% of its remaining investment in Trojan plant costs, and full recovery of its estimated decommissioning costs through 2011.

Numerous challenges, appeals and requested reviews have been filed in Marion County, Oregon Circuit Court, Oregon Court of Appeals and with the Oregon Supreme Court on the issue of the OPUC's authority under Oregon law to grant recovery of and a return on the Trojan investment. The primary plaintiffs in the litigation are the Citizens' Utility Board (CUB) and the Utility Reform Project (URP). Rulings issued to date by the Circuit Court and the Court of Appeals have been inconsistent on the issue. The Court of Appeals issued the latest ruling in 1998, stating that the OPUC does not have the authority to allow PGE to recover a return on the Trojan investment, but upheld the OPUC's authorization of PGE's recovery of the Trojan investment. PGE and the OPUC requested the Oregon Supreme Court to conduct a review of the Court of Appeals decision on the return on investment issue. In addition, URP requested the Oregon Supreme Court to review the Court of Appeals decision on the return of investment issue. The Supreme Court has indicated it will conduct a review.

In 2000, PGE, CUB, and the staff of the OPUC entered into agreements to settle the litigation related to PGE's recovery of its investment in the Trojan plant. Under the agreements, CUB agreed to withdraw from the litigation and support the settlement as the means to resolve the Trojan litigation. The settlement, which was approved by the OPUC, allowed PGE to remove from its balance sheet the remaining before-tax investment in Trojan of approximately \$180 million at September 30, 2000, along with several

largely offsetting regulatory liabilities. The largest of such amounts consisted of before-tax credits of approximately \$79 million in customer benefits related to the previous settlement of power contracts with two other utilities and about \$80 million of the remaining obligation under terms of the Enron/PGC merger. The settlement also allows PGE recovery of approximately \$47 million in income tax benefits related to the Trojan investment which had been flowed through to customers in prior years; such amount is being recovered from PGE customers, with no return on the unamortized balance, over an approximate five year period. After offsetting the investment in Trojan with these credits and prior tax benefits, the remaining Trojan regulatory asset balance of approximately \$5 million (after tax) was expensed. As a result of the settlement, PGE's investment in Trojan is no longer included in rates charged to customers, either through a return of or a return on that investment. The URP challenged the settlement agreements and the OPUC order. Collection of decommissioning costs at Trojan is unaffected by the settlement agreements or the OPUC order.

PGE had requested the Oregon Supreme Court to hold in abeyance its review of the Court of Appeals decision pending resolution of URP's complaint with the OPUC challenging PGE's application for approval of the accounting and ratemaking elements of the settlement agreements approved by the Commission on September 29, 2000. On March 25, 2002, the OPUC issued an order denying all of URP's challenges, and approving PGE's application of the accounting and ratemaking elements of the settlement. PGE has requested the Oregon Supreme Court to further delay its consideration until June 2002.

Management cannot predict the ultimate outcome of the above litigation. However, it believes this matter will not have a material adverse impact on the financial condition of the Company, but may have a material impact on the results of operations for a future reporting period.

Union Grievances - Grievances have been 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, on behalf of all present and retired bargaining unit members, allege that Enron manipulated the stock resulting in the losses. The grievances do not specify an amount of claim, but rather request that the present and retired members be made whole. The IBEW and the Company have agreed to delay the grievance process until June 1, 2002. No reserves have been established by PGE for any amounts related to this issue.

Other Legal Matters - PGE is party to various other claims, legal actions and complaints arising in the ordinary course of business. These claims are not material.

Environmental Matter - A 1997 investigation of a 5.5 mile segment of the Willamette River known as the Portland Harbor, conducted by the EPA, revealed significant contamination of sediments within the harbor. Based upon analytical results of the investigation, the EPA has included the Portland Harbor on the federal National Priority list pursuant to the federal Comprehensive Environmental Response, Compensation, and Liability Act ("Superfund") in 2000.

In 1999, the DEQ asked that PGE perform a voluntary remedial investigation of its Harborton Substation site to confirm whether any regulated hazardous substances had been released from the substation property into the harbor sediments. While PGE does not believe that it is responsible for any contamination in Portland Harbor, in May 2000 the Company entered into a "Voluntary Agreement for Remedial Investigation and Source Control Measures" (Voluntary Agreement) with the DEQ, in which the Company agreed to complete a remedial investigation at the Harborton site under terms of the agreement. Pursuant to the Voluntary Agreement, PGE submitted a pre-remedial investigation work plan for DEQ review and approval.

In December 2000, PGE received from the EPA a "Notice of Potential Liability" regarding the Harborton Substation facility. Such notice included a "Portland Harbor Initial General Notice List" containing sixty-eight other companies that the EPA believes may be Potentially Responsible Parties with respect to the Portland Harbor Superfund Site.

In March 2001, a final study plan was submitted to the DEQ for approval, with testing initiated in June 2001. PGE has performed initial investigations and remedial activities based upon the approved study and plan. Such investigations have shown no significant soil or groundwater contaminations with a pathway to the river sediments from the Harborton site.

In February 2002, PGE submitted a report to the DEQ summarizing its pre-remedial investigations conducted in accordance with the May 2000 Voluntary Agreement. The report indicated that such investigations demonstrated that there is no likely present or past source or pathway for release of hazardous substances to surface water or sediments at or from the Harborton Substation site. Further, the investigations demonstrated that the site does not present a high priority threat to present and future public health, safety, welfare, or the environment. The report concluded that the Harborton Substation facility was not a source of contamination to the Willamette River because no likely sources of hazardous substance releases were identified. A request has been made to the DEQ for a determination that no further work is required under the Voluntary Agreement.

The EPA is coordinating activities of natural resource agencies and the DEQ and in early 2002 requested and received signed "administrative orders of consent" from several Potentially Responsible Parties, voluntarily committing to further remedial investigations; PGE was not requested to sign such order. Available information is currently not sufficient to determine either the total cost of investigation and remediation of the Portland Harbor or the liability of Potentially Responsible Parties, including PGE.

Although management does not believe it has any responsibility for contamination of the Portland Harbor, it cannot predict the ultimate outcome of this matter or estimate any possible loss.

Note 5 - Related Party Transactions

The tables below detail the Company's related party balances and transactions (in millions):

		March 31, 2002		December 31, 2001
Receivables from affiliated companies				
Enron Corp and other Enron Subsidiaries:				
	Merger Receivable	\$ 75	\$	74
	Allowance for Uncollectible - Merger Receivable	(75)		(74)
	Income Taxes Receivable ^(a)	4		4
	Accounts Receivable ^(b)	1		2
	Other Allowance for Uncollectible Accounts ^(b)	(5)		(5)
Portland General Holdings and its subsidiaries:				
	Accounts Receivable ^(b)	34		33
Payables to affiliated companies				
Enron Corp:				
	Accounts Payable ^(a)	7		11
(a) Included in Accounts payable and other accruals on the Consolidated Balance Sheets				
(b) Included in Accounts and notes receivable on the Consolidated Balance Sheets				
For the Three Months Ended March 31		2002		2001
Revenues from affiliated companies				
Other Enron subsidiaries:				
	Sales of electricity ^(a)	\$ -	\$	81
Expenses billed from affiliated companies				
Enron Corp:				
	Intercompany services ^(b)	5		3
Other Enron subsidiaries:				
	Purchases of electricity ^(c)	-		81
Interest (net) from affiliated companies				

Enron Corp:				
	Interest income ^(d)		2	2
Portland General Holdings and its subsidiaries:				
	Interest income ^(d)		1	1
(a) Included in Operating Revenues on the Consolidated Statements of Income				
(b) Included in Administrative and other on the Consolidated Statements of Income				
(c) Included in Purchased power and fuel on the Consolidated Statements of Income				
(d) Included in Other Income (Deductions) on the Consolidated Statements of Income				

Merger Receivable - Under terms of the companies' 1997 merger agreement, Enron and PGE agreed to provide \$105 million of benefits to PGE's customers through price reductions payable over an eight-year period. Although the remaining liability to customers was reduced to zero under terms of a 2000 settlement agreement related to PGE's recovery of its investment in Trojan, Enron remained obligated to PGE for the approximate \$80 million remaining balance and continued to make monthly payments, as provided under the merger agreement.

Enron suspended its monthly payments to PGE in September 2001, pursuant to its Stock Purchase Agreement with NW Natural, which will assume Enron's merger payment obligation upon its purchase of PGE. At March 31, 2002, Enron owed PGE approximately \$75 million, including accrued interest. The sale of PGE to NW Natural is subject to various regulatory approvals, as well as approvals from Enron's bankruptcy proceedings. The realization of the Merger Receivable from Enron is uncertain at this time due to Enron's bankruptcy. Based on this uncertainty, PGE has established a reserve for the full amount of this receivable, of which \$74 million was recorded in December 2001. For further information, see Note 8, Proposed Acquisition of PGE by NW Natural, and Note 9, Enron Bankruptcy.

Income Taxes Receivable - As a member of Enron's consolidated income tax return, PGE made income tax payments to Enron for PGE's income tax liabilities. The \$4 million balance at March 31, 2002 represents a receivable from Enron for refunds of prior income taxes paid by PGE.

Intercompany Receivables and Payable - As part of its ongoing operations, PGE bills affiliates for various services provided. These include services provided by PGE employees along with other corporate governance services and are billed at the higher of cost or market. Also, PGE is billed for services received at the lower of cost or market, primarily for employee benefit plans and corporate overhead costs. All affiliated interest transactions with PGE are subject to approval of the OPUC and are described below.

Enron - PGE receives management services from Enron and provides incidental services to Enron. In the first quarter of 2002, Enron billed PGE approximately \$2 million for retirement savings plan matching and medical and dental benefits and an additional \$3 million for corporate overhead costs. For the same period in 2001, Enron billed PGE \$3 million for allocated overhead and other direct costs, comprised of \$2 million for retirement savings plan matching, and \$1 million for medical and dental benefits.

Intercompany payables to Enron were paid by PGE until Enron filed for bankruptcy in early December 2001. PGE has since stopped making its payments to Enron, except those for employee benefit plans, pending the ultimate disposition of payables to and receivables from Enron resulting from Enron's bankruptcy proceedings. At March 31, 2002, the \$7 million balance consisted primarily of \$6 million for corporate overhead costs.

Other Enron Subsidiaries - PGE provided services and sublease of office space to other Enron subsidiaries, including Enron Broadband Services and Enron North America. PGE purchased and sold electricity and transmission services to Enron Power Marketing, Inc. (EPMI), a subsidiary of Enron North America. Under these transactions with EPMI, the purchases and sales of energy were primarily for like quantities and hours. PGE purchased power at prices no higher than the Dow Jones Mid-Columbia Index and charged at prices at or higher than the Dow Jones Mid-Columbia Index. At March 31, 2002, PGE is owed \$1 million by EPMI for power and transmission services provided in 2001 and transmission services provided in 2002.

Portland General Holdings and Subsidiaries - Portland General Holdings (PGH) is a wholly owned subsidiary of Enron. Prior to Enron's bankruptcy, Enron had provided a portion of the funding for operations of PGH and its subsidiaries. With Enron's bankruptcy, any future funding from Enron will be subject to approval of the Bankruptcy Court. PGH and its subsidiaries are not part of Enron's bankruptcy proceedings at this time. PGE has an outstanding receivable balance from PGH and its subsidiaries at March 31, 2002 of \$34 million, comprised of \$29 million related to non-regulated asset sales, \$4 million related to PGH employee benefit plans, and \$1 million for employee services and other corporate governance services.

In 1999, PGE transferred \$21 million of corporate owned life insurance policies to PGH, creating a receivable balance due PGE. PGH transferred these policies to a trust for non-qualified benefit plan obligations, leaving a receivable balance due PGE. Later in

1999 PGH recorded a capital transaction with its wholly owned subsidiary PGH II, Inc. (PGH2), transferring the \$21 million PGE intercompany payable to PGH2. PGH retained the trust owned life insurance policies in this transaction. The transfer to PGH2 was the result of negotiations between Enron and Sierra Pacific Resources related to the proposed sale of PGE and PGH2 to Sierra (the sale of which was later terminated). As of March 31, 2002, PGH2 has made no payments to PGE on the outstanding balance of \$26 million (includes accrued interest).

PGH2 is the parent company of various subsidiaries that receive services from PGE. These include Portland General Distribution Company and Portland General Broadband Wireless (telecommunications companies), Enron Microclimates (a project management company), and Portland Energy Solutions (PES), which provides cooling services to buildings in downtown Portland, Oregon. At March 31, 2002, PGE has a \$3 million receivable balance from Portland General Distribution Company related to assets sold for a capital project and for employee services provided by PGE.

PGE has entered into a revolving credit agreement with PES for \$2 million. The agreement was approved by the OPUC on April 2, 2002. Under the agreement, PGE will advance funds to PES to complete a district cooling system project. The loan will accrue interest at 16% per annum, and mature on December 31, 2002. PGE also has a security interest in certain contracts and equipment related to the project. As of April 30, 2002, no funds have been advanced by PGE under the agreement.

Under the Stock Purchase Agreement between Enron and NW Natural, PGH2 and its subsidiaries are included in the purchase by NW Natural. Accordingly, assets and obligations of PGH2 would then be part of the NW Natural consolidated group. The sale to NW Natural is subject to various regulatory approvals and approvals from Enron's bankruptcy proceedings. If the sale of PGE and PGH2 to NW Natural does not close, management believes PGH2 has access to assets and other resources, including those of its parent (PGH), to support the realization of PGE's intercompany receivable from PGH2. For further information, See Note 8, Proposed Acquisition of PGE by NW Natural.

PGE also provides services to its consolidated subsidiaries, including funding under a cash management agreement and the sublease of office space in the WTC. Intercompany balances and transactions have been eliminated in consolidation.

PGE maintains no compensating balances and provides no guarantees for related parties.

Interest Income and Expense - Interest is accrued on the Enron Merger Receivable balance at PGE's current authorized cost of capital (9.083%); receivable balances from PGH and its subsidiaries accrue interest at 9.5%. Prior to 2001, interest was accrued at 9.5% on other outstanding receivable and payable balances with Enron and its subsidiaries. Beginning in 2001, interest was no longer accrued on those other outstanding balances with Enron due to the proposed merger with Sierra Pacific Resources, which was terminated in April 2001.

Management Assessment - Due to Enron's bankruptcy, management cannot predict the ultimate outcome of the above matters and the realization of its receivables. In particular, the collectibility of the \$75 million Enron Merger Receivable would be uncertain under Enron's bankruptcy proceedings should the sale of PGE to NW Natural not occur. As a result, the Company has established a reserve for the entire amount of this receivable, of which \$74 million was recorded in December 2001. In addition, due to uncertainties associated with other receivable balances from Enron and its subsidiary companies which are part of the bankruptcy proceedings, a credit reserve was established in December 2001 for the entire \$5 million remaining balance of such receivables.

Note 6 - Receivables - California Wholesale Market

As of May 1, 2002, PGE has accounts receivable totaling approximately \$85 million that may be affected by the financial condition of two California utilities. Remaining payments totaling approximately \$19 million (including imputed interest at 6.79%) were owed by Southern California Edison Company (SCE) under terms of a 1996 agreement providing for the termination of a Power Sales Agreement between the two companies. SCE has made its scheduled monthly payments under the termination agreement, with the final payment due in December 2002. In addition, a balance of approximately \$66 million is currently owed the Company by the California Independent System Operator (ISO) and the California Power Exchange (PX) for wholesale electricity sales made from November 2000 through February 2001. The Company estimates that the majority of this amount was for sales by the ISO and PX to SCE and Pacific Gas & Electric Company (PG&E).

On March 9, 2001, the PX filed for bankruptcy, and on April 6, 2001, PG&E filed a voluntary petition for relief under the provisions of Chapter 11 of the U.S. Bankruptcy Code. Pursuant to Chapter 11 of the U.S. Bankruptcy Code, PG&E retains control of its assets and is authorized to operate its business as a debtor in possession while subject to the jurisdiction of the Bankruptcy Court.

PGE is pursuing collection of all past due amounts. Management is continually assessing PGE's exposure relative to its California receivables and has established a credit reserve for amounts due under its wholesale electricity contracts.

The Company has retained legal counsel on the bankruptcy matters and has numerous options, including legal, regulatory, and other means to pursue collection of amounts ultimately not received. Due to uncertainties surrounding both the bankruptcy filings and regulatory reviews of sales made during this time period, management cannot predict the ultimate realization of these receivables.

Management believes that the outcome of this matter will not have a material adverse impact on the financial condition of the Company, but may have a material impact on the results of operations for future reporting periods.

Note 7 - Refunds on Wholesale Transactions

California

In a June 19, 2001 FERC order adopting a price mitigation program for 11 states within the WSCC area, the issue of refunds for spot market sales made between October 2, 2000 through June 20, 2001 was referred to a settlement judge. Subsequently, the settlement judge recommended to the FERC that the potential for refunds during the period October 2, 2000 through June 20, 2001 be set for hearing.

On July 25, 2001, the FERC issued an order establishing the scope of and methodology for calculating refunds related to non federally-mandated transactions in the spot markets operated by the ISO and the PX. In addition, an evidentiary hearing proceeding was ordered to develop a factual record to provide the basis for the refund calculation. The Company's potential refund obligation, using the FERC methodology, is currently estimated to be in the range of \$20 million to \$30 million, with final determination to be made after FERC review of calculations filed by the ISO. Hearings were held in March 2002, with additional hearings scheduled for August 2002. PGE will have the opportunity to challenge the FERC's determination of the amount of any proposed refunds.

Pacific Northwest

In the July 25, 2001 order, the FERC called for a preliminary evidentiary hearing to explore whether there may have been unjust and unreasonable charges for spot market sales of electricity in the Pacific Northwest from December 25, 2000 through June 20, 2001. During this period, PGE both sold and purchased electricity in the Pacific Northwest. Upon completion of hearings, the appointed Administrative Law Judge issued a recommended order that the claims for refunds be dismissed. That recommendation, which would eliminate any potential refunds to be paid or received by PGE as a result of this proceeding, is now before the Commission for action.

Any refunds paid or received by PGE applicable to spot market electricity transactions on and after January 1, 2001 in California and the Pacific Northwest are eligible for inclusion in the calculation of net variable power costs under the Company's power cost mechanism. This could potentially mitigate the financial effect of any refunds made or received by the Company.

Management cannot predict the ultimate outcome of these matters. However, it believes that the outcome will not have a material adverse impact on the financial condition of the Company, but may have a material impact on the results of operations for future reporting periods.

Note 8 - Proposed Acquisition of PGE by NW Natural

On October 5, 2001, Enron and NW Natural, an Oregon corporation principally engaged in the distribution of natural gas in major portions of western Oregon and southwest Washington, entered into a Stock Purchase Agreement providing for the purchase by NW Natural of all the issued and outstanding common stock of PGE. PGH2 and its subsidiaries are also included in the proposed purchase by NW Natural. Under terms of the agreement, Enron will sell PGE to NW Natural for \$1.8 billion, comprised of \$1.55 billion in cash and \$250 million of equity securities to be issued to Enron. In addition, the balance of the merger obligation due PGE remaining from Enron's purchase of PGE in 1997 would be assumed by NW Natural (see Note 5, Related Party Transactions, for further information). PGE will retain its approximately \$1.1 billion in existing debt and preferred stock.

The transaction is subject to a number of conditions, including obtaining regulatory approvals from the SEC, the FERC, the NRC, the OPUC, the EFSC, and the Washington Utilities and Transportation Commission. The proposed acquisition has been reported to the U.S. Department of Justice and the Federal Trade Commission for antitrust review; the waiting period for such review expired with no further action required. The EFSC, FERC, and NRC have approved the transaction, which is also subject to the approval of NW Natural's shareholders.

The agreement provides for PGE to continue to conduct its business in a manner consistent with past practice, using all reasonable efforts to preserve intact its present business organization and goodwill. It further prevents the Company from declaring dividends to Enron that exceed its total net income from 1999 through the closing date of the sale, less any dividends previously paid. PGE's 2001 net income included a \$44 million after-tax provision related to uncertainties associated with the realization of the merger receivable balance due from Enron. (See Note 5, Related Party Transactions, for further information). Since NW Natural would assume this obligation to PGE when the proposed acquisition is completed, PGE would reverse this provision at the sale closing date, making the amount available for dividend distribution to Enron under terms of the agreement. Based upon actual net income, adjusted for the reversal of the merger receivable provision and for dividends previously paid, PGE would owe Enron a cash dividend of approximately \$177 million for the period 1999 through the first quarter of 2002, with an additional amount required based on net income from April 1, 2002 to the closing date of the sale. In addition, the agreement provides for PGE to pay Enron an additional \$4.5 million dividend, defined as the Specified Enron Merger Obligation under the Stock Purchase Agreement. PGE expects to pay these amounts, to be funded by the issuance of either long-term or short-term debt, at or near the close of the sale.

On March 19, 2002, the OPUC approved a request by Enron and NW Natural for a 60-day suspension of the procedural schedule that waives the statutory time period for approval of the sale through late-September 2002. The new schedule was adopted to accommodate NW Natural's need to analyze further any effects of Enron's bankruptcy on PGE and Enron's need to work with creditors and the Bankruptcy Court regarding various options.

Both Enron and NW Natural continue to pursue regulatory approval of the sale under terms of the agreement between the two companies. However, as a result of Enron's bankruptcy, the sale cannot be completed until Enron, as Debtor in Possession, has affirmed the Stock Purchase Agreement and obtained approval by the Bankruptcy Court. Enron has presented a plan to the Unsecured Creditors' Committee for a new company, which would include PGE, to operate outside of its bankruptcy proceeding (see Note 9, Enron Bankruptcy, for further information). In light of these proceedings and other matters relating to Enron's bankruptcy, management cannot predict whether the regulatory, financing, and other conditions will be satisfied.

Note 9 - Enron Bankruptcy

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 is not included in the filing.

On May 3, 2002, Enron presented to the Creditors Committee a proposal under which certain of Enron's core energy assets, including PGE, would be separated from Enron's bankruptcy estate and operated prospectively as a new integrated power and pipeline company. If the Creditor's Committee endorses this proposal, it must then be presented to the Bankruptcy Court for approval. Until this process results in a filing with the Bankruptcy Court, management will not know the role of PGE in any proposed structure and cannot assess the impacts on PGE's business and operations.

In connection with its proposed restructuring, Enron has stated that it believes that the total amount of the liquidated, undisputed claims against Enron and its subsidiaries exceeds and will exceed the current fair market value of the consolidated operations and assets of Enron and its subsidiaries. Accordingly, Enron has stated that it believes its existing equity has and will have no value and that any Chapter 11 plan confirmed by the Bankruptcy Court will not provide Enron's existing equity holders with any interest in the reorganized debtor. Any and all Chapter 11 plans are subject to creditor approval and judicial determination of confirmability.

Management cannot predict with certainty what impact Enron's bankruptcy may have on PGE. However, it does believe that the assets and liabilities of PGE will not become part of the Enron estate in bankruptcy. Although Enron owns all of PGE's common stock, PGE as a separate corporation owns or leases the assets used in its business and PGE's management, separate from Enron, is responsible for PGE's day-to-day operations. Regulatory and contractual protections restrict Enron access to PGE assets. Under Oregon law and specific conditions imposed on Enron and PGE by the OPUC in connection with Enron's acquisition of PGE in the merger of Enron and Portland General Corporation in 1997 (merger conditions), Enron's access to PGE cash or assets (through dividends or otherwise) is limited. Under the merger conditions, PGE cannot make any distribution to Enron that would cause PGE's equity capital to fall below 48% of total PGE capitalization (excluding short-term borrowings) without OPUC approval. The merger conditions also include notification requirements regarding dividends and retained earnings transfers to Enron. PGE is required to maintain its own accounting system as well as separate debt and preferred stock ratings. PGE maintains its own cash management system and finances itself separately from Enron, on both a short- and long-term basis.

Notwithstanding the above, PGE may have potential exposure to certain liabilities and asset impairments as a result of Enron's bankruptcy. These are:

1. Amounts due from Enron and Enron-supported affiliates - As described in Note 5, Related Party Transactions, PGE is owed approximately \$75 million by Enron relating to the Merger Receivable (including interest accrued to March 31, 2002). NW Natural will assume Enron's obligation should the sale of PGE to NW Natural close. (See Note 8, Proposed Acquisition of PGE by NW Natural, for additional information). Because of uncertainties associated with Enron's bankruptcy, PGE has established a reserve for the full amount of this receivable, of which \$74 million was recorded in December 2001. In addition, due to

uncertainties associated with other receivable balances from Enron and its subsidiary companies which are part of the bankruptcy proceedings, a credit reserve was established in December 2001 for the entire \$5 million remaining balance of such receivables.

2. Control Group Liability - Enron's bankruptcy has raised questions regarding potential PGE liability for certain employee benefit plan and tax obligations of Enron.

Pension Plans

The pension plan for the employees of PGE (PGE Plan) is separate from the Enron pension plan (Enron Plan). The PGE Plan has assets that exceed the present value of all accrued benefits on a SFAS No. 87 (Employers' Accounting for Pensions) basis and, management believes on a plan termination basis. Based on discussions with Enron management, it is PGE management's understanding that, as of December 31, 2001, the assets of the Enron Plan were less than the present value of all accrued benefits by approximately \$90 million on a SFAS No. 87 basis and approximately \$120 million on a plan termination basis. However, approximately 48% of that amount is attributable to members of the Enron controlled group that are not in bankruptcy. The Pension Benefit Guaranty Corporation (the PBGC) insures pension plans, including the PGE Plan and the Enron Plan.

Subject to applicable law, management is permitted to merge separate pension plans established by companies in the same controlled group. If the Enron Plan and PGE Plan are merged, the excess assets in the PGE Plan would reduce the deficiency in the Enron Plan. However, if the plans are not merged, the deficiency in the Enron Plan could become the responsibility of the PBGC and the PGE Plan's assets would be undiminished.

Since the Enron Plan is underfunded and Enron is in bankruptcy, in certain circumstances the Enron Plan may be terminated and taken control by the PBGC upon approval of a Federal District Court. In addition, with consent of the PBGC, Enron could seek to terminate the Enron Plan while it is underfunded.

Upon termination of the plan, all of the members of the controlled group of the plan sponsor become jointly and severally liable for the plan's underfunding. The PBGC can demand payment from one or more of the members of the controlled group. If payment is not made, a lien in favor of the plan automatically attaches against all of the assets of each member of the controlled group. The amount of the lien is equal to the lesser of the underfunding or 30% of the member's aggregate net worth. In addition, if the sponsor of a pension plan does not timely satisfy its minimum funding obligation to the pension plan, once the aggregate missed amounts exceed \$1 million, a lien in the amount of the missed funding automatically attaches to the assets of every member of the controlled group. In either case, the PBGC is entitled to file the lien and enforce it against the assets of members of the controlled group. Since substantially all of PGE's assets are subject to a prior perfected lien in favor of the holders of its First Mortgage Bonds, any lien by the PBGC would be subordinate to that lien. Based on discussions with Enron's management, PGE's management understands that to date Enron has made all required contributions.

Management cannot predict the outcome of the above matters or estimate any potential loss. In addition, if the PBGC did look solely to PGE to pay any amount with respect to the Enron Plan, PGE would exercise all legal rights, if any, available to it to defend against such a demand and to recover any contributions from the other solvent members of the controlled group. No reserves have been established by PGE for any amounts related to this issue.

Retiree Health Benefits

Under COBRA, certain retirees of Enron who lose coverage under Enron's group health plan due to Enron's bankruptcy proceedings are entitled to a continuation of their health coverage in a group plan maintained by Enron or a member of its controlled group. Management understands, based on discussions with Enron management, that Enron had provided a plan for health insurance and that the actuarial liability was approximately \$70 million as of December 31, 2001. Management further understands that to meet its obligation, Enron, at December 31, 2001, had set aside approximately \$34 million of assets in a VEBA trust, which may be protected under ERISA from Enron's creditors, leaving an unfunded liability of approximately \$36 million.

In the event that Enron terminates its retiree group health plan, the retirees must be provided the opportunity to purchase continuing coverage from Enron's group health plan, if any, or the appropriate group health plan of another member of the Enron controlled group. Retirees electing to purchase COBRA coverage would be provided the same coverage that is provided to retirees under the most appropriate existing plan in the controlled group. Retirees electing to purchase COBRA coverage would be required to pay for the coverage, up to an amount not to exceed 102% of the average cost of coverage for similarly situated beneficiaries. Retirees are not required to purchase coverage under COBRA. Retirees will be able to shop for coverage from third party sources and determine which is the least expensive coverage.

Management cannot predict the outcome of the above matter or estimate any potential loss. However, management believes that in the event Enron terminates coverage, any liability to PGE associated with the number of retirees that choose to remain under Enron's retiree health plan will not be material. No reserves have been established by PGE for any amounts related to this issue.

Income Taxes

Under the IRC, each member of a consolidated group during any part of a consolidated federal income tax return year is severally liable for the tax liability of the consolidated group for that year. PGE became a member of Enron's consolidated group on July 2, 1997, the date of Enron's merger with Portland General Corporation. Based on discussions with Enron's management, PGE management understands that PGE ceased to be a member of Enron's consolidated group on May 7, 2001.

Enron's management has provided the following information to PGE:

- A. Enron's consolidated tax returns through 1995 have been audited and are closed. The IRS has completed its field audit of the consolidated tax returns for 1996-1997; however, the statute of limitations is still open because of the net operating losses generated in these years. The IRS is currently auditing Enron's consolidated tax returns for 1998-2000. Enron's consolidated tax return for 2001 is expected to be filed in mid-2002 and Enron expects this return and its examination to be included in the bankruptcy process.
- B. For years 1996-1999, Enron and its subsidiaries generated substantial net operating losses (NOLs). For 2000, Enron and its subsidiaries paid an alternative minimum tax. Enron and its subsidiaries anticipate that the 2001 consolidated tax return will show a substantial loss, which would be carried back to tax year 2000, and result in a tax refund for taxes paid in 2000. The carryback of the 2001 loss to 2000 provides Enron and its subsidiaries substantial NOLs for any additional income tax liabilities for the periods in which PGE was a member of Enron's consolidated federal income tax returns. At this time, Enron

anticipates claims, if any, made by the IRS in the bankruptcy proceedings for the years 1996-2001 will occur sometime in the fall of 2002. If there were additional tax liabilities claimed by the IRS, these would be satisfied by funds in the bankruptcy estate ahead of unsecured Enron creditors.

Although management cannot predict with certainty the outcome of IRS audits, based on the above, it believes it is unlikely at this time, that any tax claims by the IRS would offset the substantial NOLs available to the Enron consolidated tax returns. If the IRS did seek payment and Enron did not pay, the IRS could look to one or more members of the consolidated group, including PGE. If the IRS did look to PGE to pay any assessment not paid by Enron, PGE would exercise whatever legal rights, if any, are available for recovery in Enron's bankruptcy proceeding, or to otherwise to obtain contributions from the other solvent members of the consolidated group, who are not debtors in the bankruptcy case. As a result, management believes the income tax exposure to PGE would be minimal, if any, related to any future liabilities from Enron's consolidated tax returns during the period PGE was a member of Enron's consolidated tax returns. No reserves have been established by PGE for any amounts related to this issue.

3. Enron/NW Natural Transaction - Although both Enron and NW Natural are continuing to seek regulatory approvals of the sale of PGE and PGH2, the sale cannot be completed until Enron has assumed the Stock Purchase Agreement and obtained approval of the Bankruptcy Court. See Note 8, Proposed Acquisition of PGE by NW Natural, for additional details.

Enron Debtor in Possession Financing - PGE has been informed by Enron management that shortly after the filing of its bankruptcy petition in December 2001, Enron entered into a debtor-in-possession credit agreement with Citicorp USA Inc. and JP Morgan Chase Bank. Under the terms of the credit agreement and related security agreements, all of which were approved by the Bankruptcy Court having jurisdiction over Enron's case, Enron pledged its stock in PGE to secure the repayment of any amounts due under the Debtor in Possession financing. Enron also granted the lenders a security interest in the proceeds of the sale of PGE to NW Natural. Under the terms of the pledge, the lenders are prohibited from exercising substantially all of their rights to foreclose against the pledged shares of PGE stock or to exercise control over PGE unless and until (a) the stock purchase agreement between Enron and NW Natural for the sale of PGE has been terminated, rejected or otherwise is subject to termination, and (b) the lenders have obtained the necessary regulatory approvals for the transfer of PGE stock to the lenders. The credit agreement also prohibits Enron from amending, modifying or waiving the terms of the Stock Purchase Agreement with NW Natural without the approval of the lenders. The pledge automatically terminates upon the closing of the sale of PGE to NW Natural.

Management cannot predict the ultimate outcome of the above matters due to the uncertainties surrounding Enron's bankruptcy.

Note 10 - Power Cost Mechanism

In its August 31, 2001 general rate order, the OPUC approved a Power Cost Adjustment mechanism extending from October 1, 2001 through the end of 2002. Under this mechanism, PGE shares with its retail customers the difference between actual net variable power costs and the amount used to establish base energy rates. In addition, PGE shares with customers the difference between actual energy revenues and a pre-determined base. A portion of the net difference between pre-determined levels and actual net variable power costs and revenues (termed "Power Cost Variance") is subject to recovery (or refund).

Any Power Cost Variance exceeding \$28 million is shared with PGE customers, with any variance between \$28 million and \$38 million shared equally. Of the next \$62 million (up to \$100 million), PGE will collect or refund 85% of the variance, and of the next \$100 million (up to \$200 million), PGE will collect or refund 90% of the variance. For variances that exceed \$200 million, PGE will collect or refund 95% of the variance.

A Power Cost Adjustment Account is maintained to record both the calculated Power Cost Variance and amounts actually collected from or refunded to customers. Any tariff rate adjustments, calculated on a quarterly basis, are subject to review and approval by the OPUC. In the first six months of the mechanism, approximately \$27 million was deferred for future recovery from retail customers, all of which applied to the first quarter of 2002.

Note 11 - New Accounting Standard

Statement of Financial Accounting Standards No. 143 (SFAS No. 143), Accounting for Asset Retirement Obligations, requires the recognition, as an Asset Retirement Obligation (ARO), of a liability for dismantlement and restoration costs associated with the retirement of tangible long-lived assets in the period in which the liability is incurred. Upon initial recognition, the probability weighted future cash flows for the associated retirement costs, discounted using a credit-adjusted risk-free rate, are recognized as both a liability and as an increase in the capitalized amount of the related long-lived assets. Capitalized asset retirement costs are depreciated over the life of the related asset, with accretion of the ARO liability classified as an operating expense on the income statement. PGE is required to comply with SFAS No. 143 beginning January 1, 2003 and is currently evaluating the impact of SFAS No. 143 to its tangible long-lived assets, substantially all of which are included in rate-regulated operations.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Results of Operations

The following review of PGE's results of operations should be read in conjunction with the Consolidated Financial Statements. Due to seasonal fluctuations in electricity sales, as well as the price of wholesale energy and natural gas costs, quarterly operating earnings are not necessarily indicative of results to be expected for calendar year 2002.

2002 Compared to 2001 for the Three Months Ended March 31

PGE's net income in the first quarter of 2002 was \$36 million, compared to \$43 million in the first quarter of 2001. Last year's first quarter results include the \$11 million cumulative effect of a change in accounting principle resulting from the adoption of SFAS No. 133 on January 1, 2001. The \$4 million increase in net income before the effect of the accounting change was due primarily to an increase in the market value of trust owned life insurance assets.

Total operating revenues decreased \$226 million (30%) compared to the first quarter of 2001, due primarily to significantly lower prices for energy sold in the wholesale market. Wholesale revenues decreased \$344 million (from \$480 million to \$136 million), as prices dropped 80% from last year's first quarter due to the combined effect of lower natural gas prices and market forces within the region. Wholesale sales volume increased 39% as PGE sold on the wholesale market excess power purchased; last year, such purchases were used to replace lower hydro generation to meet first quarter retail load requirements. Retail revenues increased \$129 million due primarily to a general rate increase that became effective October 1, 2001; energy sales decreased 5% as a slowing economy and conservation more than offset an approximate 10,400 (1.5%) increase in total customers from the end of last year's first quarter. Included in the retail revenue increase is \$22 million of previously deferred 2001 revenues in excess of net variable power costs. Other operating revenues decreased \$11 million due primarily to lower prices for sales of natural gas in excess of generating plant requirements.

Megawatt-Hours Sold (thousands)

	<u>2002</u>	<u>2001</u>
Retail	4,942	5,191
Wholesale	3,811	2,739

Purchased power and fuel costs decreased \$245 million due primarily to significantly lower energy prices. Due to both lower regional power and natural gas market prices, the average cost of firm power purchases dropped over 50% from last year's first quarter. Combined with lower prices for spot market purchases and an approximate 37% decrease in thermal generation, PGE's average variable power cost was approximately half of last year's first quarter (for further information, see "Power Supply" in the Financial and Operating Outlook section). Partially offsetting the effect of the decreased average cost of purchased power and fuel was an approximate 9% increase in total system load resulting from higher wholesale energy sales. In addition, purchased power and fuel costs in the first quarters of 2002 and 2001 include credits of approximately \$27 million and \$3 million, respectively, related to the Company's power cost mechanisms, in which a portion of the Power Cost Variance is deferred for future recovery from customers. (See "Power Cost Mechanisms" in the Financial and Operating Outlook section for further information).

PGE generation decreased 31% from last year's first quarter due to both the economic displacement of combustion turbine generation and forced repair outages at the Company's coal fired generating plants. Hydro production approximated that of 2001's first quarter despite the loss in generation attributable to the January 1, 2002 sale of a portion of the Company's interest in the Pelton Round Butte project. Total generation met approximately 43% of PGE's retail load during the first quarter, compared to 60% last year. The following table indicates PGE's total system load (including both retail and wholesale) for the first quarters of 2002 and 2001. Average variable power costs exclude the effect of credits to purchased power and fuel costs related to PGE's power cost mechanisms, as discussed above.

Megawatt/Variable Power Costs

	Megawatt-Hours (thousands)		Average Variable Power Cost (Mills/kWh)	
	<u>2002</u>	<u>2001</u>	<u>2002</u>	<u>2001</u>
Generation	2,269	3,288	16.0	24.4
Firm Purchases	5,772	4,337	43.8	91.2
Spot Purchases	<u>1,064</u>	<u>628</u>	25.3	173.9

(*includes wheeling costs)

Operating expenses (excluding purchased power and fuel, depreciation and amortization, and taxes) increased \$14 million (27%). Energy efficiency expenditures, which are recovered by additional revenues, increased \$6 million from last year's first quarter. Delivery system expenses, reflecting higher distribution maintenance costs and accelerated tree trimming efforts, also increased \$6 million. In addition, corporate overhead expenses, including certain employee benefit costs, increased \$4 million, due primarily to the timing of allocated overhead costs from Enron, which in 2001 were not recorded until the second quarter due to the proposed sale of PGE to Sierra Pacific Resources (which sale was later terminated). Partially offsetting these increases was an approximate \$2 million decrease in fees paid to the Confederated Tribes of Warm Springs related to the operation of PGE's Pelton Round Butte hydroelectric project, which were terminated upon the sale of a 33.33% interest in the project to the Tribes. (For further information, see Note 2, Sale of Pelton Round Butte Hydroelectric Project, in the Notes to Financial Statements).

Depreciation and amortization expense decreased \$3 million. Increased amortization of regulatory liabilities and a credit resulting from the establishment of a regulatory asset related to the sale of the Pelton Round Butte hydroelectric project resulted in amortization credits totalling \$9 million in the first quarter of 2002. This was partially offset by a \$6 million increase in depreciation of utility plant, due to both normal property additions and higher depreciation rates established in the Company's recent general rate case.

Taxes other than income taxes increased \$3 million (18%) due to increased city franchise fees resulting from both higher energy sales revenue and adjustments related to an audit finalized in the first quarter of 2002.

Income taxes increased \$4 million (17%) primarily due to higher taxable income.

Other income increased \$3 million. A \$6 million gain in the market value of trust owned life insurance assets was partially offset by a \$2 million provision for accrued interest on the Merger Receivable from Enron and other non-recurring items.

Capital Resources and Liquidity

Review of Cash Flow Statement

Cash Provided by Operations is used to meet the day-to-day cash requirements of PGE. Supplemental cash is obtained from external borrowings, as needed.

A significant portion of cash from operations comes from depreciation and amortization of utility plant, charges which are recovered in customer revenues but require no current cash outlay. Changes in accounts receivable and accounts payable can also be significant contributors or users of cash.

Cash provided by operating activities totaled \$76 million in this year's first quarter compared to \$36 million in the same period last year. The increase is due primarily to a \$69 million increase in payments received from sales to wholesale electricity customers, partially offset by a \$25 million net increase in cash collateral deposits made with certain wholesale customers.

Investing Activities consist primarily of improvements to PGE's distribution, transmission, and generation facilities. A \$23 million reduction in capital expenditures in the first quarter of 2002 is primarily attributable to reduced expenditures for transmission substation and distribution line construction activities. In addition, costs in the first quarter of 2001 include \$6 million related to a new 24.5 megawatt combustion turbine unit at the Beaver plant site.

Financing Activities provide supplemental cash for day-to-day operations and capital requirements as needed. PGE relies on commercial paper borrowings and cash from operations to manage its day-to-day financing requirements. During the first quarter of 2002, the Company reduced its short-term commercial paper by \$5 million and repaid \$15 million in matured First Mortgage Bonds and \$2 million of conservation bonds. The Company also paid \$1 million in preferred stock dividends during the first quarter of 2002. No common stock dividends were declared in the first quarter of 2002; management continues to evaluate future declaration of common stock dividends in light of expected cash requirements and other considerations.

The issuance of additional First Mortgage Bonds and preferred stock requires PGE to meet earnings coverage and security provisions set forth in the Articles of Incorporation and the Indenture securing its First Mortgage Bonds. As of March 31, 2002, PGE has the capability to issue additional First Mortgage Bonds in amounts sufficient to meet its anticipated capital requirements.

PGE is evaluating alternatives for the replacement of its \$200 million line of credit, which expires in June 2002. Such alternatives include the issuance of First Mortgage Bonds and new revolving credit facilities.

Credit Ratings

On May 7, 2002, Standard & Poor's (S&P) announced that PGE remains on CreditWatch Negative as the implications of parent Enron's recently released reorganization proposal are being studied. See "Enron Bankruptcy" in Financial and Operating Outlook below for further information.

S&P indicated that, to the extent that Enron were to reject or NW Natural were to cancel the contract for Enron to sell PGE to NW Natural, or that PGE were to remain a wholly owned subsidiary of Enron not subject to the sale contract, S&P's ratings of PGE could be lowered. Such a downgrade would reflect the general vulnerability of a wholly owned subsidiary to its insolvent parent. Nevertheless, S&P further indicated, it is important to note that, at this stage, Enron has not rejected the sale contract. Also, PGE is currently pursuing satisfying S&P's structural separation ("ring-fencing") criteria. In the absence of a contract of sale or effective structural separation mechanism, S&P concluded, PGE's ratings are likely to be downgraded well into the speculative grade category.

Should the rating agencies reduce the credit rating on PGE's unsecured debt to below investment grade, the Company could be subject to requests by certain of its wholesale counterparties to post additional performance assurance collateral. Based on PGE's non-trading and trading portfolio, estimates of current energy market prices as of May 10, 2002, and the current level of collateral outstanding, the approximate amount of additional collateral that could be requested upon such a downgrade event is \$175 million. This amount decreases to approximately \$20 million by year-end 2002 as current higher-priced energy contracts continue to settle. In addition to collateral calls, such a credit ratings reduction would likely have an adverse effect on PGE's ability to issue long-term debt and commercial paper, increasing the cost of funding its day-to-day working capital requirements.

Financial and Operating Outlook

Enron's Proposed Sale of PGE

In October 2001, Enron entered into an agreement to sell PGE to NW Natural, a natural gas distribution company located in Portland, Oregon, for \$1.8 billion (\$1.55 billion in cash and \$250 million of equity securities to be issued to Enron). PGE will retain its approximately \$1.1 billion in existing debt and preferred stock. In addition, the balance of the merger obligation due PGE, remaining from Enron's purchase of PGE in 1997, would be assumed by NW Natural. The agreement also provides for the acquisition by NW Natural of PGH II, Inc., a subsidiary of Enron engaged in non-utility development, including assumption of balances payable to PGE.

The transaction between NW Natural and Enron is subject to regulatory approvals, applications for which have been filed, from the SEC, the FERC, the NRC, the OPUC, the EFSC, and the Washington Utilities and Transportation Commission. In addition, the proposed acquisition has been reported to the U.S. Department of Justice and the Federal Trade Commission for antitrust review. The transaction has been approved by the EFSC, FERC, and NRC, and the waiting period for antitrust review has expired with no further action required. The transaction is also subject to approval by NW Natural's shareholders. In addition, the sale cannot be completed until Enron, as Debtor in Possession, has assumed the stock purchase agreement and obtained approval by the Bankruptcy Court.

Although the OPUC decision was initially anticipated by late-May 2002, Enron and NW Natural requested, and the Commission approved, a 60-day suspension of the procedural schedule that provides for hearings to resume in mid-May 2002 and that waives the statutory time period for approval of the sale through late-September 2002. A decision by the OPUC is not expected until October 2002. Both Enron and NW Natural continue to pursue regulatory approval of the sale under terms of the agreement between the two companies. The new schedule was set to accommodate NW Natural's need to further analyze any effects of Enron's bankruptcy on PGE, as well as Enron's need to work with creditors and the Bankruptcy Court regarding various options.

Enron has proposed retaining certain of its core energy assets, including PGE, subject to approval by the Creditors Committee and the Bankruptcy Court. For further information, see Enron Bankruptcy below.

On May 7, 2001, Enron granted an option to its indirect wholly-owned subsidiary, Enron Northwest Assets, LLC, to purchase all the common stock of PGE for one dollar for the purpose of effectuating tax planning, with the effects of de-consolidation of PGE from Enron's consolidated tax group. Enron Northwest Assets, LLC is also a party to the stock purchase agreement dated October 5, 2001, providing for the sale of PGE to NW Natural. The stock purchase agreement provides that at closing, either Enron Northwest Assets will exercise its option and convey the shares of PGE to NW Natural or, in the alternative, Enron will simply directly convey the shares of PGE to Northwest Natural. In connection with the negotiation of its Debtor in Possession financing (see Enron Debtor in Possession Financing below), Enron has agreed to take all necessary steps to ensure that the option held by Enron Northwest Assets is not exercised. Given the alternative means of closing the sale of PGE to NW Natural, the agreement by Enron to cause the option held by Enron Northwest Assets not to be exercised should not interfere with closing of the sale of PGE to NW Natural under the terms of the stock purchase agreement.

Enron Bankruptcy

In December 2001, Enron and certain of its subsidiaries filed for bankruptcy under Chapter 11 of the federal Bankruptcy Code. Neither PGE nor several other Enron subsidiaries, including subsidiaries owning gas pipelines and related facilities, are included in the bankruptcy. Numerous shareholder and employee class action lawsuits have been initiated against Enron, its former independent accountants, legal advisors, executives, and board members, and its stock has been suspended from trading on the New York Stock Exchange. In addition, investigations of Enron have been commenced by several Congressional committees and state and federal regulators, including the FERC and the State of Oregon. In March 2002, Enron, substantially all of its subsidiaries and several former officers were suspended by the General Services Administration from contracting with the federal government.

On May 3, 2002, Enron presented to the Creditors Committee a proposal under which certain of Enron's core energy assets, including PGE, would be separated from Enron's bankruptcy estate and operated prospectively as a new integrated power and pipeline company. If the Creditor's Committee endorses this proposal, it must then be presented to the Bankruptcy Court for approval. Until this process results in a filing with the Bankruptcy Court, management will not know the role of PGE in any proposed structure and cannot assess the impacts on PGE's business and operations.

Although PGE is not included in the Enron bankruptcy, it has been affected. The Company has been included in requests for documents related to Congressional and regulatory investigations, with which it is fully cooperating. PGE was also included in Enron subsidiaries suspended from contracting with the federal government. Although no federal, state, or local governmental entity has ceased to transact business with PGE, and the BPA has stated that the suspension does not affect its sales and purchases of electricity with PGE, the Company believes it does not merit suspension and has begun the process to be removed from the suspension. Management believes the suspension will not have a material adverse effect on PGE business and operations.

In addition to the general effects discussed above, PGE may have potential exposure to certain liabilities and asset impairments as a result of Enron's bankruptcy. These are:

1. Amounts due from Enron and Enron-supported affiliates - As described in Note 5, Related Party Transactions, PGE is owed approximately \$75 million by Enron relating to the Merger Receivable (including accrued interest to March 31, 2002). NW Natural will assume Enron's obligation should the sale of PGE to NW Natural close. (For further information, see Note 8, Proposed Acquisition of PGE by NW Natural, in the Notes to Financial Statements). Because of uncertainties associated with Enron's bankruptcy, PGE has established a reserve for the entire amount of this receivable, of which \$74 million was recorded in December 2001. In addition, due to uncertainties associated with other receivable balances from Enron and its subsidiary companies which are part of the bankruptcy proceedings, a credit reserve was established in December 2001 for the entire \$5 million remaining balance of such receivables.

2. Control Group Liability - Enron's bankruptcy has raised questions regarding potential PGE liability for certain employee benefit plans and tax obligations of Enron.

Pension Plans

Funding Status

The pension plan for the employees of PGE (PGE Plan) is separate from the Enron pension plan (Enron Plan). The PGE Plan has assets that exceed the present value of all accrued benefits on a SFAS No. 87 (Employers' Accounting for Pensions) basis and, management believes, on a plan termination basis. Based on discussions with Enron management, it is PGE management's understanding that, as of December 31, 2001, the assets of the Enron Plan were less than the present value of all accrued benefits by approximately \$90 million on a SFAS No. 87 basis and approximately \$120 million on a plan termination basis. However, approximately 48% of that amount is attributable to members of the Enron controlled group that are not in bankruptcy.

It is permissible, subject to applicable law, for management to merge separate pension plans established by companies in the same controlled group. Enron could direct that the PGE Plan be merged with the Enron Plan with the result that the present value of all accrued benefits under both of the plans will not exceed the value of the assets in the combined plans. If the plans are merged, the assets in the PGE Plan would reduce the deficiency in the Enron Plan. However, if the plans are not merged, the deficiency in the Enron Plan could become the responsibility of the PBGC, which insures pension plans, including the PGE Plan and the Enron Plan, and the PGE Plan's surplus would be undiminished. Merging the plans would reduce the value of PGE, the stock of which is an asset available to Enron's creditors, and disproportionately benefit the PBGC. Management believes that it is unlikely that either Enron or Enron's creditors would agree to support merging the two plans.

Although the Enron Plan is underfunded and Enron is in bankruptcy, Enron cannot itself terminate the Enron Plan unless it provides 60 days notice and the PBGC, in the case of solvent entities, or the Bankruptcy Court, in the case of insolvent entities, determines that each member of Enron's controlled group, including PGE, is in financial distress, as defined in ERISA. Since, in the opinion of management PGE, as a solvent entity, does not meet the financial distress test, management believes that it is unlikely that Enron can terminate the Enron Plan. However, Enron could, with consent of the PBGC (see below), seek to terminate the Enron Plan while it is underfunded.

The PBGC does have the authority, upon application to and approval by a Federal District Court, to terminate and take over control of underfunded pension plans in certain circumstances. In order to initiate this process, the PBGC must determine that either the minimum funding standard for the plan (see below) has not been met, or that the plan will not be able to pay benefits when due, or that there is a reasonable risk that long-run losses to the PBGC will be unreasonably increased or that certain improper distributions have been made from the plan. The court must determine that plan termination is necessary to protect participants, the plan, or the PBGC.

Upon termination of a plan, all members of the controlled group of the plan sponsor become jointly and severally liable for the underfunding, but are not obligated to pay until a demand for payment is made by the PBGC. The PBGC can demand payment from one or more of the members of the controlled group. If payment of the full amount demanded is not made, a lien in favor of the plan automatically attaches against all of the assets of each member of the controlled group. The amount of the lien is equal to the lesser of the underfunding or 30% of the member's aggregate net worth. The PBGC may perfect the lien by appropriate filings. The lien does not take priority over other previously perfected liens on the assets of a member of

the controlled group. Substantially all of PGE's assets are subject to a prior perfected lien in favor of the holders of its First Mortgage Bonds. Any lien by the PBGC would be subordinate to that lien.

If the PBGC did look solely to PGE to pay any underfunded amount in respect of the Enron Plan, PGE would exercise all legal rights, if any, available to it to defend against such a demand and to recover any contributions from the other solvent members of the controlled group. Until such time as the Enron Plan is terminated and the PBGC makes a demand on PGE to pay some or all of the underfunded amount, PGE has no liability for the underfunded amount and no termination liens are attached to any PGE property. Other members of Enron's controlled group could, to the extent of any legal rights available to them, seek contribution from PGE for their payment of any underfunded amount assessed by the PBGC. No reserves have been established by PGE for any amounts related to this issue.

Minimum Funding Obligation

If the sponsor of a pension plan does not timely satisfy its minimum funding obligation to the pension plan, once the aggregate missed amounts exceed \$1 million, a lien in the amount of the missed funding automatically attaches to the assets of every member of the controlled group. The lien is in favor of the plan, but may be enforced by the PBGC. The PBGC may perfect the lien by appropriate filings. The lien does not take priority over other previously perfected liens on the assets of a member of the controlled group. If Enron does not timely satisfy its minimum funding obligation in excess of \$1 million, a lien will attach to the assets of PGE and all other members of the controlled group. The PBGC would be entitled to file the lien and enforce it in favor of the Enron Plan against the assets of PGE and other members of the controlled group. However, substantially all of PGE's assets are subject to a prior perfected lien in favor of the holders of its First Mortgage Bonds. Any lien by the PBGC would be subordinate to that lien.

Based on discussions with Enron management, PGE management understands that Enron has made all required contributions to date. PGE does not know if Enron will make future quarterly contributions of approximately \$6 million as they become due.

Management is unable to predict if Enron will miss a payment and, if so, whether the PBGC would seek to have PGE make any or all of the payment. If the PBGC did look solely to PGE to pay the missed payment, PGE would exercise all legal rights, if any, available to it to defend against such a demand and to recover contributions from the other solvent members of the controlled group. Until Enron does miss a contribution, PGE has no liability and no liens will attach to any PGE property. Other members of Enron's controlled group could, to the extent of any legal rights available to them, seek contribution from PGE for their payment of any missed payments demanded by the PBGC. No reserves have been established by PGE for any amounts related to this issue.

Retiree Health Benefits

Under COBRA, retirees of a bankrupt employer who lose coverage under a group health plan of the employer as a result of certain bankruptcy proceedings, are entitled to continuation of health coverage in a group health plan maintained by the bankrupt employer or a member of its controlled group. Management understands, based on discussion with Enron management, that Enron had provided a plan for health insurance for certain retirees, and that the actuarial liability amounts to approximately \$70 million at December 31, 2001. Management further understands that to meet its obligation, Enron has set aside approximately \$34 million of assets in a VEBA trust which may be protected under ERISA from Enron's creditors, leaving an unfunded liability of approximately \$36 million at December 31, 2001. In the event that Enron terminates its retiree group health plan, the retirees must be provided the opportunity to purchase continuing coverage from Enron's group health plan, if any, or the appropriate group health plan of another member of the controlled group. Neither Enron nor any member of the controlled group would be required to fully fund the benefit or create new plans to provide coverage, and retirees would not be entitled to choose from which plan to obtain coverage. Retirees electing to purchase COBRA coverage would be provided the same coverage that is provided to retirees under the most appropriate plan in the controlled group. Retirees electing to continue coverage would be required to pay for the coverage, up to an amount not to exceed 102% of the average cost of coverage for similarly situated beneficiaries. Retirees are not required to acquire coverage under COBRA. Retirees will be able to shop for coverage from third party sources and determine which is the least expensive coverage.

Management believes that in the event Enron terminates coverage, any material liability to PGE associated with Enron retiree health benefits is unlikely for two reasons. First, based on discussion with Enron management, PGE management understands that most of the retirees that would be affected by termination of the Enron plan are from solvent members of the controlled group and few, if any, live in Oregon. Management believes that it is unlikely that any PGE plans would be found to be the most appropriate to provide COBRA coverage. Second, even if a PGE plan were selected, management believes that retirees in good health should be able to find less expensive coverage from other providers, which will reduce the number of retirees electing coverage. Management believes that the additional cost to PGE to provide coverage to a limited number of retirees that are unable to acquire other coverage because they are hard to

insure or have preexisting conditions will not be material. No reserves have been established by PGE for any amounts related to this issue.

Income Taxes

Under the IRC, each member of a consolidated group during any part of a consolidated federal income tax return year is severally liable for the tax liability of the consolidated group for that year. PGE became a member of Enron's consolidated

group on July 2, 1997, the date of Enron's merger with Portland General Corporation. PGE management understands, based on discussion with Enron management, that PGE ceased to be a member of Enron's consolidated group on May 7, 2001.

Enron's management has provided the following information to PGE:

A. Enron's consolidated tax returns through 1995 have been audited and are closed. The IRS has completed its field audit of the consolidated tax returns for 1996-1997; however, the statute of limitations is still open because of the net operating losses generated in these years. The IRS is currently auditing Enron's consolidated tax returns for 1998-2000. Enron's consolidated tax return for 2001 is expected to be filed in mid-2002 and Enron expects this return and its examination to be included in the bankruptcy process.

B. For years 1996-1999, Enron and its subsidiaries generated substantial net operating losses (NOLs). For 2000, Enron and its subsidiaries paid an alternative minimum tax. Enron and its subsidiaries anticipate that the 2001 consolidated tax return will show a substantial loss, which would be carried back to tax year 2000, and result in a refund of taxes paid in 2000. The carryback of the 2001 loss to 2000 provides Enron and its subsidiaries substantial NOLs for any additional income tax liabilities for the periods in which PGE was a member of Enron's consolidated federal income tax returns. At this time, Enron anticipates claims, if any, made by the IRS in the bankruptcy proceedings for the years 1996-2001 will occur sometime in the fall of 2002. If there were additional tax liabilities claimed by the IRS, these would be satisfied by funds in the bankruptcy estate ahead of unsecured Enron creditors.

Although management cannot predict with certainty the outcome of the IRS audits, based on the above, it believes it is unlikely, at this time, that any tax claims by the IRS would offset the substantial NOLs available to the Enron consolidated tax returns. If the IRS did seek payment and Enron did not pay, the IRS could look to one or more members of the consolidated group, including PGE. If the IRS did look to PGE to pay any assessment not paid by Enron, PGE would exercise whatever legal rights, if any, are available for recovery in Enron's bankruptcy proceeding, or to otherwise obtain contributions from the other solvent members of the consolidated group who are not debtors in the bankruptcy case. As a result, management believes the income tax exposure to PGE would be minimal, if any, related to any future liabilities from Enron's consolidated tax returns during the period PGE was a member of Enron's consolidated tax returns. If PGE is not de-consolidated from Enron's consolidated tax group for periods after 2001, PGE would be severally liable for the tax liability of the consolidated group for those periods along with any other members of the consolidated group. No reserves have been established by PGE for any amounts related to this issue.

Management cannot predict with certainty what impact Enron's bankruptcy may have on PGE. However, it does believe that the assets and liabilities of PGE will not become part of the Enron estate in bankruptcy. Although Enron owns all of PGE's common stock, PGE as a separate corporation owns or leases the assets used in its business and PGE's management, separate from Enron, is responsible for PGE's day to day operations. PGE maintains its own cash management system and finances itself separately from Enron, on both a short- and long-term basis. Neither PGE nor Enron have guaranteed the obligations of the other. Under Oregon law and specific conditions imposed on Enron and PGE by the OPUC in connection with Enron's acquisition of PGE in the merger of Enron and Portland General Corporation in 1997 (merger conditions), Enron's access to PGE cash or utility assets (through dividends or otherwise) is limited. Under the merger conditions, PGE cannot make any distribution to Enron that would cause PGE's equity capital to fall below 48% of total PGE capitalization (excluding short-term borrowings) without OPUC approval. The merger conditions also include notification requirements regarding dividends and retained earnings transfers to Enron. PGE is required to maintain its own accounting system as well as separate debt and preferred stock ratings.

Neither does management believe that there is any incentive for Enron or its creditors to take PGE into bankruptcy. PGE is a solvent enterprise whose greatest value is as a going concern. PGE believes that in a bankruptcy, Enron would lose most, if not all control over PGE. It would become merely the holder of PGE's common stock, and PGE, as a Debtor in Possession, would be managed by its management or, as is the case with Enron in its bankruptcy, new management brought in for that purpose. As Debtor in Possession, PGE would owe fiduciary obligations to its creditors. It would be the creditors of PGE, not Enron or the creditors of Enron, that would form a creditors' committee with oversight over the activities of PGE management. PGE believes that any plan of reorganization would be devised by PGE management and subject to confirmation by the Bankruptcy Court after the vote of PGE's (not Enron's) creditors. No dividends could be paid to Enron, no assets could be sold, and no other transfer of funds could be made except with the approval of the Bankruptcy Court after notice to PGE's creditors. Further, PGE would continue to be required to operate its business according to Oregon law, and the OPUC would not be stayed from enforcing its police and regulatory powers. Since the issue of whether a Bankruptcy Court has the authority to supersede state regulation of a utility has not been resolved, PGE believes that the OPUC would challenge any attempt to sell assets, transfer stock, or otherwise affect the activities of PGE without the approval of the OPUC. Any such challenge would likely result in years of litigation and effectively preclude any transfer of stock, assets, or other funds from PGE to Enron or any other party. As a result, PGE believes that the economic interests of Enron and its creditors are better served by pursuing their present course.

Enron Debtor in Possession Financing

PGE has been informed by Enron management that shortly after the filing of its bankruptcy petition in December 2001, Enron entered into a Debtor in Possession credit agreement with Citicorp USA Inc. and JP Morgan Chase Bank. Under the terms of the credit agreement and related security agreements, all of which were approved by the Bankruptcy Court having jurisdiction over Enron's case, Enron pledged its stock in PGE to secure the repayment of any amounts due under the Debtor in Possession financing. Enron also granted the lenders a security interest in the proceeds of the sale of PGE to NW Natural. Under the terms of the pledge, the lenders are prohibited from exercising substantially all of their rights to foreclose against the pledged shares of PGE stock or to exercise control over PGE unless and until (a) the stock purchase agreement between Enron and NW Natural for the sale

of PGE has been terminated, rejected or otherwise is subject to termination, and (b) the lenders have obtained the necessary regulatory approvals for the transfer of PGE stock to the lenders. The credit agreement also prohibits Enron from amending, modifying, or waiving the terms of the stock purchase agreement with NW Natural without the approval of the lenders. The pledge automatically terminates upon the closing of the sale of PGE to NW Natural.

Management cannot predict the ultimate outcome of the above matters due to the uncertainties surrounding Enron's bankruptcy. For additional information, see Note 9, Enron Bankruptcy, in the Notes to Financial Statements.

Power Cost Mechanisms

In order to protect both PGE and its customers from price volatility in the wholesale power and natural gas markets, the OPUC has authorized the Company to defer actual net variable power costs which differ from certain baseline amounts approved by the Commission. During the initial power cost mechanism, which covered the period January through September 2001, PGE's net variable power costs, as calculated under terms approved by the OPUC, exceeded the baseline. The Company has received Commission approval to recover the approximate \$91 million balance (including \$7 million of interest), over a period of 3 1/2 years beginning April 1, 2002. Such recovery will be partially offset by the refund of approximately \$22 million in certain customer credits over the period April 1, 2002 through December 31, 2002.

Under a power cost mechanism covering the period October 1, 2001 through December 31, 2002, PGE has received OPUC authorization to share with its customers the difference between actual net variable power costs and the amount used to establish base energy rates, as well as the difference between actual energy revenues and a pre-determined base. A portion of the net difference between pre-determined levels and actual net variable power costs and revenues (termed "Power Cost Variance") is subject to recovery (or refund). Any Power Cost Variance exceeding \$28 million is shared with PGE customers, with any variance between \$28 million and \$38 million shared equally. Of the next \$62 million (up to \$100 million), PGE will collect or refund 85% of the variance, and of the next \$100 million (up to \$200 million), PGE will collect or refund 90% of the variance. For variances that exceed \$200 million, PGE will collect or refund 95% of the variance.

A Power Cost Adjustment Account is maintained to record both the calculated Power Cost Variance and amounts actually collected from or refunded to customers. Any tariff rate adjustments, calculated on a quarterly basis, are subject to review and approval by the OPUC. In the first six months of the mechanism, approximately \$27 million was deferred for future recovery from retail customers, all of which applied to the first quarter of 2002.

Receivables - California Wholesale Market

As of May 1 2002, PGE has accounts receivable totaling approximately \$85 million that may be affected by the financial condition of two major California utilities. Significant increases in wholesale power prices in the last half of 2000 and in early 2001 severely affected the financial stability of both companies and resulted in the declaration of bankruptcy by one of the utilities. A credit reserve has been established by PGE for amounts due under wholesale electricity contracts. For further information, see Note 6, Receivables-California Wholesale Market, in the Notes to Financial Statements.

Refunds on Wholesale Transactions

The FERC has issued an order directing certain electricity suppliers, including PGE, to supply information regarding wholesale power sales to California made in 2000 and 2001. Settlement discussions have taken place between the power suppliers, the state of California, and the FERC regarding potential refunds by suppliers. The discussions did not resolve the issues and the FERC has now scheduled formal hearings in the spring of 2002 to determine any potential refunds for sales in the California spot market between October 2, 2000 and June 20, 2001.

FERC hearings were held to determine whether there may have been unjust and unreasonable charges for spot market sales of electricity in the Pacific Northwest by PGE and other suppliers from December 25, 2000 through June 20, 2001. A FERC Administrative Law Judge issued a recommended order that claims for refunds be dismissed. That recommendation, which would eliminate any potential refunds to be paid or received by PGE as a result of this proceeding, is now before the FERC for action.

See Note 7, Refunds on Wholesale Transactions, in the Notes to Financial Statements for further information.

Wholesale Price Mitigation

In June 2001, the FERC adopted a price mitigation program for the power system serving 11 Western states, adopting a new benchmark formula that limits prices for electricity sold in the spot markets at all times throughout the region through September 2002. The program applies to power generators, marketers, and investor-owned utilities under FERC jurisdiction, as well as public power providers, municipal utilities, and electric cooperatives that use FERC-regulated transmission lines.

Under the program, a ceiling price is set by FERC for wholesale electricity sold in the spot market coordinated by the California Independent System Operator and in markets in the other Western states. The ceiling price, reflecting specified fuel, operations, and maintenance costs, is based upon the bid submitted by the highest cost gas-fired generating unit whose power is needed when reserves in California fall below 7 percent, triggering a Stage 1 supply emergency. No bid to sell power may exceed the ceiling price as long as the reserve emergency is in place. When reserves again exceed 7 percent, removing the emergency, the ceiling price drops to 85 percent of the highest hourly price in effect during the most recent Stage 1 reserve emergency. Because of increased credit risk, wholesale electricity sales to California are allowed a 10 percent surcharge.

PGE and other Northwest utilities expressed concerns regarding potentially adverse consequences of price mitigation measures on Northwest citizens, utilities, power marketers and generators. In response, the FERC in December 2001 temporarily modified the method for calculating the ceiling price for markets in Western states not coordinated by the California Independent System Operator. The changes acknowledge differences between the Northwest and California markets, including those related to hydropower utilization and seasons of peak usage. They include the discontinuation of the above reserve deficiency method to formulate the mitigated price and utilize instead incremental changes in the cost of natural gas to trigger adjustments in the price, initially set at \$108/MWh. The changes were in effect until May 1, 2002, at which time the previous methodology again became effective. PGE does not currently plan to seek modification of the current methodology.

Federal Investigation - Wholesale Power Markets

On February 13, 2002, the FERC commenced a fact-finding investigation into whether any entity manipulated short-term prices in electric energy or natural gas markets in the West, or otherwise exercised undue influence over wholesale prices in the West, since January 1, 2000. On March 5, 2002, all sellers with wholesale sales in the U.S. portion of the WSCC were directed to provide certain historical and projected information for all energy transactions in calendar years 2000 and 2001. PGE has submitted the requested information. In early May 2002, FERC received information that Enron may have engaged in several types of trading strategies enumerated in three memoranda that may raise questions of potential manipulation of electricity and natural gas prices in California in 2000-2001. On May 8, 2002, FERC ordered all sellers of wholesale electricity or ancillary services into the California markets during 2000-2001 to respond to FERC whether they engaged in any transactions falling within any of the enumerated types of trading strategies, and if they did to provide information about the transactions. PGE has commenced an inquiry in order to respond to FERC's order.

Antitrust Litigation

In late 2001, the State of California and numerous individuals, businesses and California cities, counties and other governmental entities filed class action law suits (Wholesale Electricity Antitrust Cases) against various individuals, utilities, generators, traders and other entities, including Duke Energy Trading and Marketing, LLC; Duke Energy Morro Bay, LLC; Duke Energy Moss Landing, LLC; Duke Energy South Bay, LLC and Duke Energy Oakland, LLC (Duke Parties) alleging that activities related to the purchase and sale of electricity in California in 2000 and 2001 violated California antitrust and unfair competition laws. The complaint seeks, among other things, restitution of all funds acquired by means that violate the law and payment of treble damages, interest, and penalties.

In late April 2002, the Duke parties filed a cross complaint against PGE and other utilities, generators, traders and other entities not named in the Wholesale Electricity Antitrust Cases, alleging that they participated in the purchase and sale of electricity in California during 2000-2001 and seeking complete indemnification and/or partial equitable indemnity on a comparative fault basis for any liability that the Court may impose on the Duke Parties under the Wholesale Electricity Antitrust Cases. Legal and equitable relief is sought, with no specific monetary amount claimed. At this time, management is unable to make any assessment of or determination with respect to this complaint.

Trojan Investment Recovery

Due to the closure of the Trojan nuclear plant in 1993 and issuance of a 1995 OPUC general rate order in connection with the recovery of and a return on the Trojan investment, numerous legal challenges, appeals and regulatory actions have taken place. As a result of a settlement agreement that was implemented in 2000, the recovery of the Trojan plant investment is no longer included in rates charged to customers. The Company continues to collect for costs related to the decommissioning of the plant. (For further information, see Note 4, Legal and Environmental Matters, in the Notes to Financial Statements).

Union Grievances

Grievances have been 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 plans attributable to the collapse of the price of Enron's stock. The grievances, on behalf of all present and retired bargaining unit members, allege that Enron manipulated the stock, resulting in the losses. The grievances do not specify an amount of claim, but rather request that the present and retired members be made whole. The IBEW and the Company have agreed to delay the grievance process until June 1, 2002, which may be extended by mutual agreement for an unlimited number of 30-day extensions.

Environmental Matter

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 1999, the DEQ asked that PGE perform a voluntary remedial investigation of its Harborton Substation site to confirm whether any regulated hazardous substances had been released from the substation property into the harbor sediments. While PGE does not believe that it is responsible for any contamination in Portland Harbor, in May 2000 the Company entered into a "Voluntary Agreement for Remedial Investigation and Source Control Measures" (Voluntary Agreement) with the DEQ, in which the Company agreed to complete a remedial investigation at the Harborton site under terms of the agreement. Pursuant to the Voluntary Agreement, PGE submitted a pre-remedial investigation work plan for DEQ review and approval.

In December 2000, PGE received from the EPA a "Notice of Potential Liability" regarding the Harborton Substation facility. Such notice included a "Portland Harbor Initial General Notice List" containing sixty-eight other companies that the EPA believes may be Potentially Responsible Parties with respect to the Portland Harbor Superfund Site.

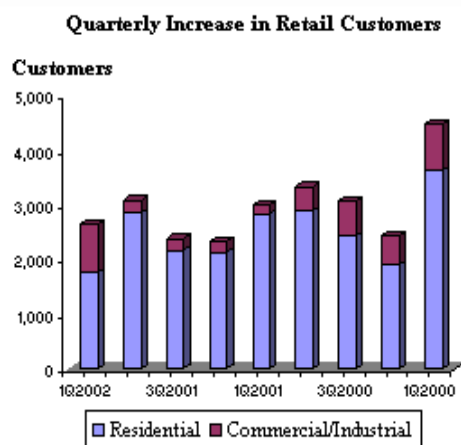
In March 2001, a final study plan was submitted to the DEQ for approval, with testing initiated in June 2001. PGE has performed initial investigations and remedial activities based upon the approved study and plan. Such investigations have shown no significant soil or groundwater contaminations with a pathway to the river sediments from the Harborton site.

In February 2002, PGE submitted a report to the DEQ summarizing its pre-remedial investigations conducted in accordance with the May 2000 Voluntary Agreement. The report indicated that such investigations demonstrated that there is no likely present or past source or pathway for release of hazardous substances to surface water or sediments at or from the Harborton Substation site. Further, the investigations demonstrated that the site does not present a high priority threat to present and future public health, safety, welfare, or the environment. The report concluded that the Harborton Substation facility was not a source of contamination to the Willamette River because no likely sources of hazardous substance releases were identified. A request has been made to the DEQ for a determination that no further work is required under the Voluntary Agreement.

The EPA is coordinating activities of natural resource agencies and the DEQ and in early 2002 requested and received signed "administrative orders of consent" from several Potentially Responsible Parties, voluntarily committing to further remedial investigations; PGE was not requested to sign such order.

Available information is currently not sufficient to determine either the total cost of investigation and remediation of the Portland Harbor or the potential liability of responsible companies, including PGE. (For further information, see Note 4, Legal and Environmental Matters, in the Notes to Financial Statements).

Retail Customer Growth and Energy Sales



Weather adjusted retail energy sales decreased by 5.2% for the three months ended March 31, 2002, compared to the same period last year. Manufacturing sector sales declined 12.9%, with all major segments of this sector down from last year. Commercial and residential energy sales were down 3.2% and 1.9%, respectively. PGE forecasts retail energy sales in 2002 will remain down somewhat from last year, as continued customer growth is offset by both a slow economy and increased conservation efforts.

Power Supply

Hydro conditions in the region have significantly improved from last year, although they remain below normal levels. Volumetric water supply forecasts for the Pacific Northwest, prepared by the Northwest River Forecast Center in conjunction with the Natural Resources Conservation Service and other cooperating agencies, currently project the January-to-July runoff at 93% of normal, compared to 54% of normal last year.

PGE generated 43% of its retail load requirement in the first quarter of 2002, with hydro generation comprising about 10% of the Company's requirement; short- and long-term purchases were utilized to meet the remaining load. PGE's ability to purchase power in the wholesale market, along with its base of thermal and hydroelectric generating capacity, currently provides the flexibility to respond to seasonal fluctuations in the demand for electricity both within its service territory and from its wholesale customers. Although surplus generation has diminished in recent years due to economic and population growth in the western United States, recent construction of new generating plants has increased the region's capacity to meet its power needs. In addition, a reduction in demand from a slowing economy and increased conservation efforts, along with increased natural gas supplies and federal price mitigation, have together resulted in significantly lower market prices for both electricity and natural gas than in the first quarter of 2001.

On January 1, 2002, PGE sold a 33.33% interest in its 410-MW Pelton Round Butte hydroelectric project to the Confederated Tribes of Warm Springs. (For further information, see Note 2, Sale of Pelton Round Butte Hydroelectric Project, in the Notes to

Financial Statements).

New Accounting Standard

See Note 11, New Accounting Standard, in the Notes to Financial Statements for information regarding new Statement of Accounting Standards No. 143, Accounting for Asset Retirement Obligations.

Statement Regarding Forward-Looking Statements

This report contains statements that are forward-looking within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Forward-looking statements are statements of expectations, beliefs, plans, objectives, assumptions or future events or performance. Words or phrases such as "anticipates", "believes", "estimates", "expects", "intends", "plans", "predicts", "projects", "will likely result", "will continue", or similar expressions identify forward-looking statements.

Forward-looking statements are not guarantees of future performance and involve risks and uncertainties that could cause actual results or outcomes to differ materially from those expressed. PGE's expectations, beliefs and projections are expressed in good faith and are believed by PGE, as applicable, to have a reasonable basis, including without limitation, management's examination of historical operating trends, data contained in records and other data available from third parties, but there can be no assurance that PGE's expectations, beliefs or projections will be achieved or accomplished.

In addition to other factors and matters discussed elsewhere in this report, some important factors that could cause actual results or outcomes for PGE to differ materially from those discussed in forward-looking statements include:

- matters related to Enron and certain of its subsidiaries' filings to initiate bankruptcy proceedings under Chapter 11 of the federal Bankruptcy Code (PGE is not included in the filing);
- events related to Enron's bankruptcy proceedings;
- events related to Enron's proposed sale of PGE to NW Natural;
- effects of electric industry restructuring in Oregon and in the United States and wholesale competition;
- governmental policies and regulatory investigations and actions, including those of the FERC and OPUC with respect to allowed rates of return, financings, electricity pricing and rate structures, acquisition and disposal of assets and facilities, operation and construction of plant facilities, recovery of net variable power costs and other capital investments, and present or prospective wholesale and retail competition;
- changes in weather, hydroelectric, and energy market conditions, which could affect PGE's ability and cost to procure adequate supplies of fuel or purchased power to serve its customers;
- wholesale energy prices (including the effect of June 2001 FERC price controls) and their effect on the availability and price of wholesale power purchases and sales in the western United States;
- changes in, and compliance with, environmental and endangered species laws and policies;
- residential, commercial, and industrial growth and demographic patterns in PGE's service territory;
- the loss of any significant customer, or changes in the business of a major customer, that may result in changes in demand for PGE services;
- the ability of PGE to access the capital markets to support requirements for working capital, construction costs, and the repayment of maturing debt;
- capital market conditions, including interest rate fluctuations and capital availability;
- changes in PGE's credit ratings, which may have an impact on the availability and cost of capital;
- legal and regulatory proceedings and issues; and,
- employee workforce factors, including strikes, work stoppages, and the loss of key executives.

Any forward-looking statement speaks only as of the date on which such statement is made, and, except as required by law, PGE undertakes no obligation to update any forward-looking statement to reflect events or circumstances after the date on which such statement is made or to reflect the occurrence of unanticipated events. New factors emerge from time to time and it is not possible for management to predict all such factors, nor can it assess the impact of any such factor on the business or the extent to which any factor, or combination of factors, may cause results to differ materially from those contained in any forward-looking statement.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

PGE is exposed to various forms of market risk which include changes in commodity prices, foreign exchange rates and interest rates. These changes may affect the Company's future financial results.

Commodity Price Risk

PGE's primary business is to provide electricity to its retail customers. The Company uses both long- and short-term purchased power contracts to supplement its thermal and hydroelectric generation to respond to seasonal fluctuations in the demand for electricity and variability in generating plant operations. In meeting these needs, PGE is exposed to market risk arising from the need to purchase power and to purchase fuel for its natural gas and coal fired generating units. The Company uses instruments such as forward contracts, which may involve physical delivery of an energy commodity, swap agreements, which may require payments to (or receipt of payments from) counterparties based on the differential between a fixed and variable price for the commodity, options, and futures contracts to mitigate risk that arises from market fluctuations of commodity prices.

Gains and losses from instruments that reduce commodity price risk are recognized when settled in purchased power and fuel expense, or in wholesale revenue. In addition, PGE policy allows the use of these instruments for trading purposes, which may expose the Company to market risks resulting from adverse changes in commodity prices. Unrealized gains and losses on such instruments are recognized within "Purchased power and fuel" expense on PGE's Income Statement. Valuation of these financial instruments reflects management's best estimates of market prices, including closing NYMEX and over-the-counter quotations, time value, and volatility factors underlying the commitments.

The Company actively manages its risk to ensure compliance with its risk management policies. PGE monitors open commodity positions in its energy portfolios using a value at risk methodology, which measures the potential impact of market movements over a one-day holding period using a variance/covariance approach at a 95% confidence interval. The portfolio is modeled using net open power and natural gas positions, with power averaged over peak and off-peak periods by month, and includes all financial and physical positions for the next 24 months, including estimates of retail load and plant generation in the non-trading portfolio. The risk factors include commodity prices for power and natural gas at various locations and do not include volumetric variability. Based on this methodology, the average, high, and low value at risk on the trading portfolio in the first quarter of 2002 was \$0.3 million, \$0.4 million, and \$0.1 million, respectively, and in the first quarter of 2001 was \$0.9 million, \$1.8 million, and \$0.4 million, respectively. The value at risk on the non-trading portfolio is not meaningful since the majority of the portfolio is effectively accounted for on an accrual or settlement basis.

Additionally, the Company has power cost mechanisms in place that allow PGE to defer, for future ratemaking treatment, actual net variable power costs that differ from certain baseline amounts approved by the OPUC. (For additional information, see "Power Cost Mechanisms" in Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations).

Foreign Currency Risk

PGE is exposed to foreign currency risk associated with natural gas forward and swap contracts denominated in Canadian dollars, primarily in its non-trading portfolio. Foreign currency risk is the risk of changes in value of pending financial obligations in foreign currencies that could occur prior to the settlement of the obligation due to a change in the value of that foreign currency in relation to the U.S. dollar. PGE monitors its exposure to fluctuations in the Canadian exchange rate and determines an appropriate hedging strategy.

At March 31, 2002, a 10% change in the value of the Canadian dollar would result in a change in pre-tax income of approximately \$4 million at the time the transactions settle over the next two years. Foreign currency risk in PGE's trading portfolio is immaterial to the Company's consolidated financial statements and is not expected to change materially in the near future.

Interest Rate Risk

PGE is exposed to risk resulting from changes in interest rates on variable rate commercial paper, short-term borrowings, and long-term debt outstanding. Although the Company currently has no financial instruments to mitigate such risk, it will consider such instruments in the future as necessary.

Credit Risk

PGE is exposed to credit risk in its energy trading activities related to potential nonperformance by counterparties. PGE manages the risk of counterparty default according to its credit policies by performing financial credit reviews and setting limits and monitoring exposures, requiring collateral when needed, and using standardized enabling agreements which allow for the netting of positive and negative exposures associated with a counterparty. Despite such mitigation efforts, defaults by counterparties may periodically occur. Valuation allowances are provided for credit risk.

Risk Management Committee

PGE has a Risk Management Committee, which is responsible for the oversight of commodity position and price risk, foreign currency risk and credit risk related to wholesale energy marketing activities. PGE's Risk Management Committee consists of officers with responsibility for risk management, finance and accounting, legal, rates and regulatory affairs, wholesale marketing, and generation operations. The Risk Management Committee approves trading and credit policies and procedures, establishes limits subject to Enron approval, and monitors compliance and risk exposure on a regular basis through reports and meetings.

PART II

Other Information

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Item 1. Legal Proceedings

For further information, see PGE's report on Form 10-K for the year ended December 31, 2001.

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

On May 13, 2002, PGE filed a letter informing the Oregon Supreme Court of probable mootness and requested the Court to continue the matter to June 29, 2002.

Gordon v. Reliant Energy, Inc./Duke Energy Trading and Marketing, et al v. Arizona Public Service Company, et al, Superior Court of the State of California for the County of San Diego, Proceeding Nos. 4204 and 4205

In late 2001, the State of California and numerous individuals, businesses and California cities, counties and other governmental entities filed class action law suits (Wholesale Electricity Antitrust Cases) against various individuals, utilities, generators, traders and other entities, including Duke Energy Trading and Marketing, LLC; Duke Energy Morro Bay, LLC; Duke Energy Moss Landing, LLC; Duke Energy South Bay, LLC and Duke Energy Oakland, LLC (Duke Parties) alleging that activities related to the purchase and sale of electricity in California in 2000 and 2001 violated California antitrust and unfair competition laws. The complaint seeks, among other things, restitution of all funds acquired by means that violate the law and payment of treble damages, interest, and penalties.

In late April 2002, the Duke parties filed a cross complaint against PGE and other utilities, generators, traders and other entities not named in the Wholesale Electricity Antitrust Cases, alleging that they participated in the purchase and sale of electricity in California during 2000-2001 and seeking complete indemnification and/or partial equitable indemnity on a comparative fault basis for any liability that the Court may impose on the Duke Parties under the Wholesale Electricity Antitrust Cases. Legal and equitable relief is sought, with no specific monetary amount claimed.

Item 6. Exhibits and Reports on Form 8-K

a. Exhibits

None.

b. Reports on Form 8-K

February 5, 2002 - Item 4. Changes in Registrant's Certifying Accountant

February 25, 2002 - Item 4. Changes in Registrant's Certifying Accountant

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

PORTLAND GENERAL ELECTRIC COMPANY

(Registrant)

May 14, 2002	By:	/s/ James J. Piro
		James J. Piro Senior Vice President, Finance Chief Financial Officer and Treasurer

May 14, 2002	By:	/s/ Kirk M. Stevens
		Kirk M. Stevens Controller and Assistant Treasurer