
City of Portland, Oregon

to

United States National Bank of Oregon

Portland, Oregon

As Trustee

Trust Indenture

Dated as of June 1, 1979

Hydroelectric Power Revenue Bonds

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The Bonds, the interest coupons to be attached to the coupon Bonds of such series and the Trustee's certificate of authentication to be endorsed on all Bonds shall be in the following forms with necessary and appropriate variations, omissions and insertions, as permitted or required by this Indenture:

(Form of Coupon Bond)

CITY OF PORTLAND, OREGON

Hydroelectric Power Revenue Bond

No.

\$5,000

City of Portland, Oregon, a municipal corporation of the State of Oregon (the "City"), for value received, hereby promises to pay to the bearer, on the 1st day of October, _____, the principal sum of

FIVE THOUSAND DOLLARS

in such coin or currency of the United States of America as at the time of payment shall be legal tender for public and private debts and to pay interest thereon in like coin or currency from the date hereof at the rate of _____ percent (___%) per annum payable semiannually on the 1st days of April and October of each year until such principal shall become due and payable, or if this Bond shall be duly called for redemption, until the redemption date, and to pay interest on any overdue principal and premium, if any, and (to the extent legally enforceable) on any overdue installment of interest at the rate aforesaid. Both principal of and interest on this Bond are payable, at the option of the holder thereof, at the principal office of United States National Bank of Oregon, Portland, Oregon (the "Trustee"), or at the principal office of the fiscal agent for the State of Oregon, New York, New York.

This Bond is one of a duly authorized issue of Bonds of the City known as "Hydroelectric Power Revenue Bonds" (the "Bonds") in an aggregate principal amount not exceeding \$38,000,000. All of the Bonds are issued under and equally and ratably secured both as to principal, premium, if any, and interest by a Trust Indenture (the "Indenture") dated as of May 1, 1979, executed by the City and the Trustee, to which Indenture and all indentures supplemental thereto reference is hereby made for a description of the property thereby pledged, the nature and extent of the security thereby granted and a statement of the terms and condi-

tions upon which the Bonds are issued and the rights of the holders thereof and the Trustee, the rights and obligations of the City and the indebtedness which is equally secured. As provided in said Indenture, bonds of other series ranking equally with the Bonds may be issued and such bonds may vary in such manner as is provided and permitted in the Indenture. All Bonds from time to time outstanding under the terms of the Indenture are hereinafter referred to as the "Bonds".

The City owns dams as part of its existing Bull Run Water Supply System that can be used as part of hydroelectric power generating facilities to be constructed out of Bond proceeds on the Bull Run River in Multnomah and Clackamas Counties, Oregon. The power generated therefrom shall be sold to Portland General Electric Company, an Oregon corporation, (the "Purchaser") pursuant to a Power Sales Agreement between the City and the Purchaser.

This Bond and the interest thereon are payable solely from the gross revenues to the City from the Power Sales Agreement which are hereby pledged for that purpose as more fully described in the Indenture. The City shall in no event be liable for the payment of the principal of, premium or interest on the Bonds or for the performance of any pledge, obligation or agreement of any kind whatsoever of the Purchaser, and none of the Bonds or any of the Purchaser's agreements or obligations shall be construed to constitute an indebtedness of the said City within the meaning of any constitutional or statutory provision whatsoever.

As provided in, and to the extent permitted by, the Indenture or any indenture supplemental thereto, the Indenture may be amended, altered, modified or supplemented by the City with the written consent of the Holders of 66-2/3% in principal amount of the Bonds then outstanding; provided, however, that no such modification shall effect the reduction of, or the extension of the stated time of payment of the principal hereof or of the interest hereon or of any premium payable on the redemption hereof or change the percentage of Bondholders required to consent to any amendment, alteration, modification or supplement or deprive any Bondholder of the security afforded by the lien of the Indenture or change the rights and duties of the Trustee.

The Bonds may be redeemed at the option of the City on October 1, 1989 or on any interest payment date thereafter, in whole or in part, in inverse order of maturity, or for the purpose of refunding, in whole but not in part, as provided in the Indenture. The Bonds, when so redeemable, are redeemable at the principal amount of the Bonds to be redeemed and accrued interest thereon to the date of redemption, plus a premium equal to 3% of such principal amount if redeemed on October 1, 1989 or April 1, 1990, 2-1/2% if redeemed on October 1, 1990 or April 1, 1991, 2%

if redeemed on October 1, 1991 or April 1, 1992, 1-1/2% if redeemed on October 1, 1992 or April 1, 1993, 1% if redeemed on October 1, 1994 or April 1, 1994, 1/2% if redeemed on October 1, 1994 or April 1, 1995, and without premium if redeemed on October 1, 1995 or thereafter. The Bonds of any series may also be refunded and prepaid by the issuance of other Bonds under the Indenture or by advance refunding, all as provided in Section 3.04 of the Indenture. Also all outstanding Bonds may be advance refunded under the provisions of Article IX of the Indenture and the Indenture may thereupon be discharged as provided in said Article IX and the holders of outstanding Bonds shall thereafter be entitled to payment solely out of money or United States Government Securities (as defined in Article IX) deposited with the Trustee in an amount sufficient to redeem Bonds when redeemable or at maturity, as the case may be.

The Bonds are also redeemable out of proceeds received by the City from insurance and condemnation under certain conditions as provided in the Indenture. Should any act or omission to act of the Purchaser result in interest on the Bonds being includable in the gross taxable income of Bondholders, the Bonds shall be immediately redeemable. In case of redemption in either such event, such redemption shall be at a price of 103% of principal amount if prior to October 1, 1990 and at par if on or after October 1, 1990. If Bonds are not redeemed upon a determination that the interest thereon is taxable, the City shall pay interest on the Bonds, from the date of such determination, at a rate of ten percent (10%) per annum.

As provided in the Indenture, notice of redemption (unless waived) shall be given by publication at least once in a newspaper of general circulation in the City of Portland, Oregon and in The Daily Bond Buyer (such publication to be not less than 30 nor more than 60 days before the redemption date). If any Bond called for redemption is fully registered, notice of redemption thereof shall also be mailed not less than 30 nor more than 60 days before the redemption date, to the registered owner of such Bond but neither failure to mail such notice nor any defect in the notice so mailed shall affect the sufficiency of the proceedings for redemption.

In case an event of default as defined in the Indenture shall occur, the principal of this Bond may become or be declared to be due and payable in the manner and with the effect provided in the Indenture.

The Bonds are issuable as coupon Bonds in the denomination of \$5,000, and as fully registered Bonds without coupons in denominations of \$5,000 and any authorized multiple thereof.

Subject to the limitations and upon payment of the charges provided in the Indenture, fully registered Bonds may be exchanged for a like aggregate principal amount of coupon Bonds of the same series and the same maturity bearing all unmatured coupons (and any unpaid coupons), or for a like aggregate principal amount of fully registered Bonds of the same series and the same maturity of authorized denominations, and coupon Bonds bearing all unmatured coupons (and any unpaid coupons) may be exchanged for a like aggregate principal amount of fully registered Bonds of the same series and the same maturity of authorized denominations.

This Bond and the coupons appurtenant hereto shall be negotiable and pass by delivery.

This Bond shall not be entitled to any benefit under the Indenture or become valid or obligatory for any purpose until it shall have been authenticated by the certificate of the said Trustee, endorsed hereon.

IN WITNESS WHEREOF, CITY OF PORTLAND, OREGON has caused this Bond to be duly executed by its Mayor, by facsimile signature, and attested by its Auditor, by manual signature, and its corporate seal to be hereunto affixed manually or by facsimile, and has likewise caused the annexed coupons to be executed by facsimile signatures of its Mayor and its Auditor, all as of the 1st day of May, 1979.

CITY OF PORTLAND, OREGON

By _____
Mayor

ATTEST:

Auditor

(SEAL)

(Form of Fully Registered Bond)

CITY OF PORTLAND, OREGON

Hydroelectric Power Revenue Bond

No. R-

\$_____

City of Portland, Oregon, a municipal corporation of the State of Oregon (the "City"), for value received, hereby promises to pay to the registered owner hereof, on the 1st day of October, _____, the principal sum of

FIVE THOUSAND DOLLARS

in such coin or currency of the United States of America as at the time of payment shall be legal tender for public and private debts and to pay interest thereon in like coin or currency from the date hereof at the rate of _____ percent (___%) per annum payable semiannually on the 1st days of April and October of each year until such principal shall become due and payable, or if this Bond shall be duly called for redemption, until the redemption date, and to pay interest on any overdue principal and premium, if any, and (to the extent legally enforceable) on any overdue installment of interest at the rate aforesaid. Both principal of and interest on this Bond are payable at the principal office of United States National Bank of Oregon, Portland, Oregon (the "Trustee").

This Bond is one of a duly authorized issue of Bonds of the City known as "Hydroelectric Power Revenue Bonds" (the "Bonds") in an aggregate principal amount not exceeding \$38,000,000. All of the Bonds are issued under and equally and ratably secured both as to principal, premium, if any, and interest by a Trust Indenture (the "Indenture") dated as of May 1, 1979, executed by the City and the Trustee, to which Indenture and all indentures supplemental thereto reference is hereby made for a description of the property thereby pledged, the nature and extent of the security thereby granted and a statement of the terms and conditions upon which the Bonds are issued and the rights of the holders thereof and the Trustee, the rights and obligations of the City and the indebtedness which is equally secured. As provided in said Indenture, bonds of other series ranking equally with the Bonds may be issued and such bonds may vary in such manner as is provided and permitted in the Indenture. All Bonds from time to time outstanding under the terms of the Indenture are hereinafter referred to as the "Bonds".

The City owns dams as part of its existing Bull Run Water Supply System that can be used as part of hydroelectric power generating facilities to be constructed out of Bond proceeds on the Bull Run River in Multnomah and Clackamas Counties, Oregon. The power generated therefrom shall be sold to Portland General Electric Company, an Oregon corporation, (the "Purchaser") pursuant to a Power Sales Agreement between the City and the Purchaser.

This Bond and the interest thereon are payable solely from the gross revenues to the City from the Power Sales Agreement which are hereby pledged for that purpose as more fully described in the Indenture. The City shall in no event be liable for the payment of the principal of, premium or interest on the Bonds or for the performance of any pledge, obligation or agreement of any kind whatsoever of the Purchaser, and none of the Bonds or any of the Purchaser's agreements or obligations shall be construed to constitute an indebtedness of the said City within the meaning of any constitutional or statutory provision whatsoever.

As provided in, and to the extent permitted by, the Indenture or any indenture supplemental thereto, the Indenture may be amended, altered, modified or supplemented by the City with the written consent of the Holders of 66-2/3% in principal amount of the Bonds then outstanding; provided, however, that no such modification shall effect the reduction of, or the extension of the stated time of payment of, the principal hereof or of the interest hereon or of any premium payable on the redemption hereof or change the percentage of Bondholders required to consent to any amendment, alteration, modification or supplement or deprive any Bondholder of the security afforded by the lien of the Indenture or change the rights and duties of the Trustee.

The Bonds may be redeemed at the option of the City on October 1, 1989 or on any interest payment date thereafter, in whole or in part, in inverse order of maturity, or for the purpose of refunding, in whole but not in part, as provided in the Indenture. The Bonds, when so redeemable, are redeemable at the principal amount of the Bonds to be redeemed and accrued interest thereon to the date of redemption, plus a premium equal to 3% of such principal amount if redeemed on October 1, 1989 or April 1, 1990, 2-1/2% if redeemed on October 1, 1990 or April 1, 1991, 2% if redeemed on October 1, 1991 or April 1, 1992, 1-1/2% if redeemed on October 1, 1992 or April 1, 1993, 1% if redeemed on October 1, 1993 or April 1, 1994, 1/2% if redeemed on October 1, 1994 or April 1, 1995, and without premium if redeemed on October 1, 1995 or thereafter. The Bonds of any series may also be refunded and prepaid by the issuance of other Bonds under the Indenture or by advance refunding, all as provided in Section 3.04 of the Indenture. Also all outstanding Bonds may be advance refunded under the

provisions of Article IX of the Indenture and the Indenture may thereupon be discharged as provided in said Article IX and the holders of outstanding Bonds shall thereafter be entitled to payment solely out of money or United States Government Securities (as defined in Article IX) deposited with the Trustee in an amount sufficient to redeem Bonds when redeemable or at maturity, as the case may be.

The Bonds are also redeemable out of proceeds received by the City from insurance and condemnation under certain conditions as provided in the Indenture. Should any act or omission to act of the Purchaser result in interest on the Bonds being includable in the gross taxable income of Bondholders, the Bonds shall be immediately redeemable. In case of redemption in either such event, such redemption shall be at a price of 103% of principal amount if prior to October 1, 1990 and at par if on or after October 1, 1990. If Bonds are not redeemed upon a determination that the interest thereon is taxable, the City shall pay interest on the Bonds, from the date of such determination, at a rate of ten percent (10%) per annum.

As provided in the Indenture, notice of redemption (unless waived) shall be given by publication at least once in a newspaper of general circulation in the City of Portland, Oregon and in The Daily Bond Buyer (such publication to be not less than 30 nor more than 60 days before the redemption date). If any Bond called for redemption is fully registered, notice of redemption thereof shall also be mailed not less than 30 nor more than 60 days before the redemption date, to the registered owner of such Bond but neither failure to mail such notice nor any defect in the notice so mailed shall affect the sufficiency of the proceedings for redemption.

In case an event of default as defined in the Indenture shall occur, the principal of this Bond may become or be declared to be due and payable in the manner and with the effect provided in the Indenture.

This Bond is transferable by the registered holder hereof in person or by his attorney duly authorized in writing at the principal office of the Trustee in Portland, Oregon, but only in the manner, subject to the limitations and upon payment of the charges provided in the Indenture, and upon surrender and cancellation of this Bond. Upon such transfer a new registered Bond or Bonds without coupons of the same series and the same maturity, of authorized denomination or denominations, for the same aggregate principal amount will be issued to the transferee in exchange therefor.

The City and the Trustee may deem and treat the registered

holder hereof as the absolute owner hereof for the purpose of receiving payment of or on account of principal hereof and premium, if any, hereon and interest due hereon and for all other purposes and neither the City nor the Trustee nor any paying agent shall be affected by any notice to the contrary.

The Bonds are issuable as coupon Bonds in the denomination of \$5,000, and as fully registered Bonds without coupons in denominations of \$5,000 and any authorized multiple thereof. Subject to the limitations and upon payment of the charges provided in the Indenture, fully registered Bonds may be exchanged for a like aggregate principal amount of coupon Bonds of the same series and the same maturity bearing all unmatured coupons (and any unpaid coupons), or for a like aggregate principal amount of fully registered Bonds of the same series and the same maturity of authorized denominations, and coupon Bonds bearing all unmatured coupons (and any unpaid coupons) may be exchanged for a like aggregate principal amount of fully registered Bonds of the same series and the same maturity of authorized denominations.

This Bond shall not be entitled to any benefit under the Indenture or become valid or obligatory for any purpose until it shall have been authenticated by the certificate of the said Trustee, endorsed hereon.

IN WITNESS WHEREOF, CITY OF PORTLAND, OREGON has caused this Bond to be duly executed by its Mayor, by facsimile signature, and attested by its Auditor, by manual signature, and its corporate seal to be hereunto affixed manually or by facsimile, all as of the 1st day of May, 1979.

CITY OF PORTLAND, OREGON

By _____
Mayor

ATTEST:

Auditor

(SEAL)

(Form of Certificate of Authentication)

This Bond is one of an issue described in the Indenture within mentioned.

_____ ,
as Trustee

By _____
Authorized Signature

WHEREAS, all things necessary to make the Bonds, when authenticated by the Trustee and issued as in this Indenture provided, the valid, legal and binding obligations of the City and to constitute this Indenture a valid, binding and legal agreement securing the payment of the principal of and interest on all the Bonds issued hereunder and for the enforcement of the covenants, agreements and stipulations herein contained have been done and performed and the creation, execution and issuance of the Bonds, subject to the terms hereof, have in all respects been duly authorized:

NOW, THEREFORE, THIS INDENTURE WITNESSETH:

That the City, in consideration of the premises and of the purchase of the Bonds and of other good and lawful consideration, the receipt of which is hereby acknowledged, and to secure the payment of the Bonds and the performance and observance of all of the covenants and conditions herein or therein contained, has executed and delivered this Indenture and has assigned, transferred, pledged and granted a security interest and by these presents does hereby assign, transfer, pledge and grant a security interest unto the Trustee, its successor or successors and its or their assigns forever, with power of sale, all and singular, the property hereinafter described (said property being herein sometimes referred to as the "trust estate") to wit:

GRANTING CLAUSES

DIVISION I

All right, title and interest of the City in and to all monies, earnings, revenues, rights to the payment of money, receivables, accounts and contract rights arising out of or resulting from that certain Power Sales Agreement between the City and the Purchaser dated as of _____, 1979.

DIVISION II

Any and all other property of every kind and nature from time to time hereafter, by delivery or by writing of any kind, conveyed, pledged, assigned or transferred as and for additional security hereunder by the City or by anyone in its behalf to the Trustee, which is hereby authorized to receive the same at any time as additional security hereunder.

TO HAVE AND TO HOLD, all and singular, the rights and privileges hereby assigned, transferred and pledged, by the City or intended so to be, unto the Trustee and its successors and assigns forever, in trust, nevertheless, with power of sale for the equal and prorata benefit and security of each and every holder of the Bonds and coupons issued and to be issued hereunder, without preference, priority or distinction as to participation in the lien, benefit and protection hereof of one Bond or coupon over or from the others, by reason of priority in the issue or negotiation or maturity thereof, or for any other reason whatsoever, except as herein otherwise expressly provided, so that each and all of such Bonds and coupons shall have the same right, lien and privilege under this Indenture and shall be equally secured hereby with the same effect as if the same had all been made, issued and negotiated simultaneously with the delivery hereof and were expressed to mature on one and the same date.

PROVIDED, NEVERTHELESS, and these presents are upon the express condition, that if the City or its successors or assigns shall well and truly pay or cause to be paid the principal of such Bonds with interest, according to the true intent and meaning of such Bonds and each of them, or shall provide for the payment or redemption of such Bonds when and as authorized by the provisions hereof, and shall also pay or cause to be paid all other sums payable hereunder by the City, then these presents and the estate and rights hereby granted shall cease, determine and become void, and thereupon the Trustee, on payment of its lawful charges and disbursements then unpaid, on demand of the City and upon the payment of the cost and expenses thereof, shall duly execute, acknowledge and deliver to the City such instruments of satisfaction or release as may be necessary or proper to discharge this Indenture of record, and if necessary shall grant, reassign and deliver to the City, its successors or assigns, all and singular the rights, privileges and interests by it hereby granted, conveyed and assigned, and all substitutes therefor, or any part thereof, not previously disposed of as herein provided; otherwise this Indenture shall be and remain in full force.

AND IT IS HEREBY COVENANTED, DECLARED AND AGREED by and between the parties hereto that all Bonds and coupons are to be issued, authenticated and delivered, and that all the trust estate is to be held and applied, subject to the further covenants, conditions, uses and trusts hereinafter set forth, and the City, for itself and its successors, does hereby covenant and agree to and with the Trustee and its respective successors in said trust, for the benefit of those who shall hold the Bonds and coupons, or any of them, as follows:

ARTICLE I

DEFINITIONS

Section 1.01. "Additional Facilities" shall mean any improvement, addition or betterment to the Project as herein defined, including any real estate, or interest therein, to be used or which will be useful in connection with any of the foregoing; provided, that such improvement, addition or betterment shall constitute part of and shall be functionally related to the Project.

"Authorized Newspaper" shall mean (i) a newspaper of general circulation in the City of Portland, Oregon, printed in the English language, customarily published on each business day, whether or not published on Saturdays, Sundays or holidays and (ii) The Daily Bond Buyer.

"Bonds" shall mean Bonds of all series from time to time authenticated and delivered under this Indenture.

"Bondholder and "Holder" shall mean the bearer of a coupon Bond, the bearer of a coupon, and the registered owner of a fully registered Bond.

"Certified Ordinance" with reference to the City shall mean a copy of an ordinance certified by the Auditor of the City to have been duly adopted by the City Council at a meeting duly called and convened.

"City" shall mean the City of Portland, State of Oregon.

"City's Certificate" shall mean a certificate signed by the Mayor or the Commissioner of Public Utilities, or any duly authorized designate of either.

"Debt Service Reserve Fund Requirement" shall mean an amount equal to the maximum annual debt service on the Bonds during any single calendar year in which any Bonds are outstanding.

"Project" shall mean the hydroelectric power generating facilities to be constructed by the City, on the Bull Run River in Multnomah and Clackamas Counties, Oregon, including the dams as part of the City's existing Bull Run Water Supply System.

"Registered Owner" shall mean the person or persons in whose name or names a Bond shall be registered, on the books of the City kept for that purpose in accordance with the terms of this Indenture.

"Responsible Officers" of the Trustee or any separate trustee or co-trustee hereunder shall mean the chairman of the board of directors, the president, every vice president, every assistant vice president, the cashier, every assistant cashier, the secretary, every assistant secretary, every trust officer, and every officer and assistant officer of such trustee, other than those specifically above mentioned, to whom any corporate trust matter is referred because of his knowledge of, and familiarity with, a particular subject.

"Trustee" shall mean United States National Bank of Oregon, Portland, Oregon, and its successors in interest.

"Written Request" with reference to the City shall mean a request in writing signed by the Mayor or the Commissioner of Public Utilities, or the duly authorized designate of either.

Section 1.02. Words of the masculine gender shall be deemed and construed to include correlative words of the feminine and neuter genders. The words "Bond", "coupon", "holder" and "person" shall include the plural as well as the singular number unless the context shall otherwise indicate. The word "person" shall include corporations, associations and natural persons unless the context shall otherwise indicate.

Section 1.03. Every certificate or opinion with respect to the compliance with a condition or covenant provided for in this Indenture and which is precedent to the taking of any action by the Trustee under this Indenture shall include: (1) a statement that the person or persons making or giving such certificate or opinion have read such covenant or condition and the definitions herein relating thereto; (2) a brief statement as to the nature and scope of the examination or investigation upon which the statements or opinions contained in such certificate or opinion are based; (3) a statement that, in the opinion of the signers, they have made or caused to be made such examination or investigation as is necessary to enable them to express an informed opinion as to whether or not such covenant or condition has been complied with; and (4) a statement as to whether, in the opinion of the signers, such condition or covenant has been complied with.

Any such certificate or opinion made or given by or on behalf of the City may be based, insofar as it relates to legal matters, upon a certificate or opinion of or representations by counsel, unless the signer knows that the certificate or opinion or representations with respect to the matters upon which his certificate or opinion may be based as aforesaid are erroneous, or in the exercise of reasonable care should have known that the same were erroneous. Any such certificate or opinion made or given by counsel may be based (insofar as it relates to factual matters information with respect to which is in the possession of the City) upon the certificate or opinion of or representations by an employee or agent of the City duly authorized to give such a certificate, opinion or representation, unless such counsel knows that the certificate or opinion or representations with respect to the matters upon which his certificate or opinion may be based as aforesaid are erroneous, or in the exercise of reasonable care should have known that the same were erroneous.

ARTICLE II

EXECUTION, AUTHENTICATION, MATURITY, FORM AND REGISTRATION OF BONDS

Section 2.01. The Bonds authorized to be issued under this Indenture shall be designated as "City of Portland, Oregon Hydroelectric Power Revenue Bonds" and shall be issuable as coupon Bonds and as fully registered Bonds without coupons. The Bonds shall be issuable in the denominations specified in Section 3.01 hereof and Bonds of other series shall be issuable in the denomination or denominations specified in the supplemental indenture creating such series.

Section 2.02. The principal of, premium, if any, and interest on the Bonds shall be payable in any coin or currency of the United States of America which, at the respective dates of payment thereof, is legal tender for the payment of public and private debts, and such principal, premium, if any, and interest shall be payable, at the option of the Holders of the Bonds, at the principal office of the Trustee in the City of Portland, Oregon, or at the principal office of the fiscal agent for the State of Oregon, New York, New York. Payment of the interest on the coupon Bonds shall be made only upon presentation and surrender of the coupons representing such interest as the same respectively falls due. Payment of the interest on any fully registered Bond on any interest payment date shall be made to the person appearing on the Bond registration books of the City as the registered owner thereof and shall be paid by check or draft mailed to the registered owner at his address as it appears on such registration books or at such address as is furnished the Trustee in writing by such holder. Any supplemental indenture creating a series of bonds may specify one or more additional paying agents.

Section 2.03. Only Bonds authenticated by the endorsement thereon of a certificate substantially in the form hereinbefore recited executed by the Trustee by one of its responsible officers shall be valid or become obligatory for any purpose or be secured by this Indenture or shall be entitled to any benefit hereunder; and every such certificate of the Trustee upon any Bond purporting to be secured hereby shall be conclusive evidence that the Bond so authenticated has been duly issued hereunder, and that the holder is entitled to the benefit of the trust hereby created. Before authenticating and delivering any coupon Bond hereunder, the Trustee shall remove and cancel any coupons thereon then matured except coupons in default.

Section 2.04. All Bonds issued and to be issued under this Indenture shall be executed in the name of the City with the facsimile signature of its Mayor and attested with the manual signature of its Auditor. The seal of the City may be affixed by facsimile reproduction thereof. In case any of the officials of the City who shall have signed or sealed any Bond shall cease to be such officer before the Bond so signed or sealed shall have been actually authenticated by the Trustee or delivered or issued, such Bond may be authenticated and delivered and issued with the same effect as though the person who had signed and sealed such Bond has not ceased to be such officer of the City. The coupons to be attached to all coupon Bonds shall be authenticated by the engraved or printed facsimile signatures of the Mayor and the Auditor and the City may use for that purpose the engraved or printed signature of such Mayor or Auditor notwithstanding the fact that he or they may have ceased to be such at the time when any of such Bonds are first authenticated and delivered or issued.

Section 2.05. Bonds of any series may be initially issued in temporary form exchangeable for definitive Bonds of the same series when ready for delivery. The temporary Bonds shall be of such denomination or denominations without coupons, as may be acceptable to the purchaser thereof, and may contain such reference to any of the provisions of this Indenture as may be appropriate. Every temporary Bond shall be executed by the City and be authenticated by the Trustee upon the same conditions and in substantially the same manner as the definitive Bonds. If the City issues temporary Bonds, it will execute and furnish definitive Bonds without delay and thereupon the temporary Bonds may be surrendered for cancellation in exchange therefor at the principal office of the Trustee, and the Trustee shall authenticate and deliver in exchange for such temporary Bonds an equal aggregate principal amount of definitive coupon Bonds or definitive fully registered Bonds without coupons of the same series and maturity of authorized denominations. Until so exchanged, the temporary Bonds shall be entitled to the same benefits under this Indenture as definitive Bonds authenticated and delivered hereunder. In case any temporary

or definitive Bond issued hereunder shall become mutilated, or be lost, stolen or destroyed, the City in its discretion shall issue, and the Trustee shall authenticate and deliver, a new Bond (with coupons corresponding to the coupons if any appertaining to the mutilated, lost, stolen or destroyed Bond) of like tenor, amount, maturity and date, and bearing a number not contemporaneously outstanding in exchange and substitution for, and upon cancellation of the mutilated Bond, or in lieu of and substitution for such lost, stolen or destroyed Bond, upon receipt of evidence satisfactory to the City and the Trustee of the destruction or loss of such Bond, and also upon receipt of indemnity satisfactory to the City and the Trustee, and the City may charge for the issue of such new Bond an amount sufficient to reimburse the City for the expense incurred by it in the issue thereof.

Section 2.06. Title to any coupon Bond, unless such Bond is fully registered in the manner hereinafter provided, and to any interest coupon, shall pass by delivery in the same manner as a negotiable instrument payable to bearer. The City shall cause books for the registration and for the transfer of the Bonds as provided in this Indenture to be kept by the Trustee which is hereby constituted and appointed the Registrar of the City. Upon surrender for transfer of any fully registered Bond at the principal office of the Trustee, duly endorsed by, or accompanied by a written instrument or instruments of transfer in form satisfactory to the Trustee and duly executed by the registered owner or his attorney duly authorized in writing, the City shall execute and the Trustee shall authenticate and deliver in the name of the transferee or transferees a new fully registered Bond or Bonds of the same series and the same interest rate and maturity for a like aggregate principal amount. Fully registered Bonds may be exchanged at said office of the Trustee for a like aggregate principal amount of coupon Bonds (or for a like aggregate amount of fully registered Bonds of other authorized denominations) of the same series and the same interest rate and maturity, and coupon Bonds may be exchanged at said office of the Trustee for a like aggregate principal amount of fully registered Bonds of authorized denominations of the same series and the same interest rate and maturity. On each registered Bond issued in exchange for coupon Bonds, the Trustee shall note on such registered Bond the numbers of the coupon Bonds being surrendered therefor. All coupon Bonds surrendered for exchange and delivered in exchange shall have attached thereto all unmatured coupons appertaining thereto (together with any matured coupons in default appertaining thereto). The City shall execute and the Trustee shall authenticate and deliver registered Bonds which the Bondholder making the exchange is entitled to receive, bearing numbers not contemporaneously then outstanding. Unless otherwise directed by the City, the Trustee may retain coupon Bonds so surrendered for use in future exchanges. The execution by the City of any fully regis-

tered Bond without coupons of any denomination shall constitute full and due authorization of such denomination and the Trustee shall thereby be authorized to authenticate and deliver such registered Bond. The Trustee shall not be required to transfer or exchange any fully registered Bond during the period of fifteen days next preceding any interest payment date of such Bond, nor to transfer or exchange any Bond after the publication of notice calling such Bond for redemption has been made, nor during a period of fifteen days next preceding publication of a notice of redemption of any Bonds.

As to any fully registered Bond without coupons, the person in whose name the same shall be registered shall be deemed and regarded as the absolute owner thereof for all purposes, and payment of either principal or interest on any fully registered Bond without coupons shall be made only to or upon the order of the registered owner thereof or his legal representative, but such registration may be changed as hereinabove provided. All such payments shall be valid and effectual to satisfy and discharge the liability upon such Bond to the extent of the sum or sums so paid. The City and the Trustee or any other Paying Agent may deem and treat the bearer of any coupon Bond, and the bearer of any coupon appertaining to any coupon Bond, as the absolute owner of such Bond or coupon, as the case may be, whether such Bond or coupon shall be overdue or not, for the purpose of receiving payment thereof and for all other purposes whatsoever, and neither the City nor the Trustee nor any other Paying Agent shall be affected by any notice to the contrary.

The City may charge reasonable administrative costs plus the cost of printing such Bond, if any, for each new Bond issued upon any exchange or transfer except in the case of (a) the exchange of temporary Bonds for definitive Bonds or (b) the first exchange or transfer of any Bond or Bonds issued at the time of the original issuance of definitive Bonds hereunder. In applying the foregoing provisions, (i) Bonds issued for the unredeemed portion of any definitive Bonds shall be deemed to have been originally issued hereunder if the indebtedness evidenced thereby constitutes an unredeemed portion of a Bond and is legally or beneficially owned by one of the original purchasers (underwriters) of definitive Bonds hereunder, and (ii) the original issuance of the definitive Bonds hereunder shall be deemed to be the original issuance of the full principal amount of definitive Bonds to a party or parties other than the original purchasers, so that said Bonds shall be considered for purposes of this paragraph to have been issued to the first purchasers thereof from the original purchasers. In each case any such first purchaser shall certify such fact to the Trustee at the time of exchange or transfer and the Trustee shall be entitled to conclusively rely upon any such certificate. Any such certificate need

not be acknowledged. In each case the Trustee shall require the payment by the Bondholder requesting exchange or transfer, of any tax or other governmental charge required to be paid with respect to such exchange or transfer.

ARTICLE III

DESCRIPTION OF THE BONDS AND BONDS OF OTHER SERIES

Section 3.01. The first series of Bonds to be issued at any time or from time to time hereunder shall be entitled "City of Portland, Oregon Hydroelectric Power Revenue Bonds" and shall not exceed \$38,000,000 in aggregate principal amount for such entire first series. The Bonds shall be issuable as coupon Bonds, in the denomination of \$5,000 and as fully registered Bonds without coupons in the denominations of \$5,000 and any multiple thereof. Unless the City shall otherwise direct, the Bonds shall be lettered and numbered as follows: The coupon Bonds shall be numbered only and full registered Bonds shall be lettered R, followed by the number of the Bond, the coupon Bonds and the fully registered Bonds to be numbered separately from 1 upward. Coupon Bond numbers may be reserved and assigned to fully registered Bonds initially issued or by exchange on the basis of one number for each \$5,000 of unpaid principal amount.

The coupon Bonds shall be dated June 1, 1979 and shall bear interest from such date payable semiannually on the first days of April and October of each year with the first interest payment to be made on October 1, 1979. The registered Bonds without coupons shall be dated as of the date of their authentication by the Trustee and shall bear interest payable semiannually from April 1 or October 1, as the case may be, next preceding the date thereof, or if such date of authentication is April 1 or October 1, such Bond shall bear interest from such date, or if such date of authentication shall be prior to October 1, 1979, such Bond shall bear interest from June 1, 1979; provided, however, that if, at the time of authentication of any registered Bond without coupons, interest is in default with respect thereto, such registered Bond shall bear interest from the interest date to which interest has previously been paid or made available for payment thereon. The Bonds, in fully registered and coupon form, the interest coupons to be annexed to coupon Bonds, and the Trustee's Certificate of Authentication shall be substantially in the forms, and be of the tenor and purport, respectively, hereinbefore set forth. If coupon Bonds shall be issued on or after

October 1, 1979, the matured coupon or coupons on the coupon Bonds shall be removed prior to delivery.

The Bonds shall bear interest per annum and shall mature in principal amounts as follows:

<u>Maturity Date</u>	<u>Principal</u>	<u>Interest Rate</u>
October 1, 1983	\$ 300,000	%
October 1, 1984	325,000	
October 1, 1985	350,000	
October 1, 1986	375,000	
October 1, 1987	400,000	
October 1, 1988	425,000	
October 1, 1989	475,000	
October 1, 1990	500,000	
October 1, 1991	525,000	
October 1, 1992	575,000	
October 1, 1993	600,000	
October 1, 1994	650,000	
October 1, 1995	675,000	
October 1, 1996	725,000	
October 1, 1997	775,000	
October 1, 1998	825,000	
October 1, 1999	900,000	
October 1, 2000	950,000	
October 1, 2001	1,000,000	
October 1, 2002	1,075,000	
October 1, 2003	1,150,000	
October 1, 2004	1,225,000	
October 1, 2016	23,200,000	

Section 3.02. The Trustee, forthwith upon the execution and delivery of this Indenture, or from time to time thereafter, upon the execution and delivery to it by the City of Bonds and without any further action on the part of the City, shall authenticate Bonds in the aggregate principal amount of not to exceed \$38,000,000 and shall deliver them to or upon the Written

Request of the City. In the event such Written Request is for authentication of Bonds in a principal amount less than the maximum authorized hereunder, then the City shall direct the Trustee as to the amounts, the interest rates and the maturity dates all within the foregoing schedule; it being understood that no Bonds issued hereunder shall mature later than October 1, 2016.

The City shall deposit with the Trustee all of the proceeds from the sale of the Bonds (including accrued interest on the Bonds from the date from which interest is to be paid thereon to the date of their delivery to the purchasers) and the Trustee shall out of such proceeds:

(a) Deposit to the credit of the Debt Service Fund, Interest Account established under Section 4.02 hereof an amount sufficient to pay the interest due on the Bonds from May 1, 1979 to October 1, 1982;

(b) Deposit to the credit of the Debt Service Reserve Fund established under Section 4.04 hereof an amount sufficient to produce by October 1, 1982 the Debt Service Reserve Fund Requirement;

(c) Deposit to the credit of the Renewal and Replacement Fund established under Section 4.05 hereof the sum of Three Hundred Twenty-one Thousand Dollars (\$321,000);

(d) Deposit to the credit of the Construction Fund created under Section 3.03 hereof the balance of the proceeds from the sale of the Bonds. Such money is to be disbursed by the Trustee for the purposes and in the manner set forth in Section 3.03 hereof.

Section 3.03. (A) The City shall establish with the Trustee a separate account to be known as the "City of Portland, Oregon Hydroelectric Power Construction Fund" (herein called the "Construction Fund") to the credit of which a deposit shall be made as required by the provisions of paragraph (d) of Section 3.02 hereof. Any monies received from any other source for the acquisition or construction or equipping of the Project, except for monies received for acquisition or construction or equipping the dams for water supply or water quality purposes, shall be deposited to the credit of the Construction Fund unless otherwise specifically excepted hereunder. The City shall establish within the Construction Fund a separate account to be known as the "City of Portland, Oregon Fish Mitigation Account" (hereinafter called the "Fish Mitigation Account"). Of the monies deposited to the Construction Fund as provided in paragraph (d) of Section 3.02 hereof, the Trustee shall first deposit Four Hundred Ninety

Thousand One Hundred Sixteen Dollars (\$490,116) to the Fish Mitigation Account to be held therein until either a final determination by the Federal Energy Regulatory Commission ("FERC") as to whether the City must mitigate for damage to anadromous fish runs caused by the construction of the dams or until the City has filed with the Trustee a written statement from the Oregon Department of Fish and Wildlife (the "Department") that monies in the Account may be removed therefrom, whichever occurs first. Interest earned on monies in the Fish Mitigation Account shall be credited to the Account. If FERC determines that fish mitigation is required, then the amount required for such purpose shall be applied by the Trustee from the Fish Mitigation Account for such purpose, the Fish Mitigation Account shall be closed and any monies remaining therein shall be returned to the Construction Fund to be treated as all other monies therein. In the event FERC determines that mitigation is not required, or in the event the City files an appropriate written statement from the Department, the Fish Mitigation Account shall be closed and any monies remaining therein shall be returned to the Construction Fund to be treated as all other monies therein. The remaining monies in the Construction Fund shall be held in trust by the Trustee, shall be applied to the payment of the costs of acquiring, constructing and equipping the Project and the issuance of the Bonds and, pending such application, shall be subject to the lien of this Indenture in favor of Holders of the outstanding Bonds and for the further security of such Holders until paid out or transferred as provided in this Section 3.03.

(B) Money deposited in the Construction Fund shall be paid out from time to time by the Trustee to or upon the order of the City in order to pay or as reimbursement for payment made for the costs of acquiring, constructing and equipping the Project and the issuance of the Bonds, in each case within 3 days after receipt by the Trustee of the following:

(a) A Written Request of the City:

(1) stating that the costs of an aggregate amount stated in such order have been made or incurred and were necessary for the construction and acquisition of the Project and were made or incurred in accordance with the Project plans and specifications then in effect and on file with the Trustee, or were necessary for equipping the Project; and

(2) stating that the amount paid or to be paid, as set forth in the said order, is reasonable and represents a part of the amount payable for construction or for equipment and that such payment was not paid in

advance of the time, if any, fixed for payment and was made in accordance with the terms of any contracts applicable thereto and in accordance with usual and customary practice under existing conditions; and

(3) stating that no part of the said construction or equipment costs was included in any Written Request previously filed with the Trustee under the provisions hereof.

(b) Such other showings, in form of title searches or examinations, up-dated surveys, contractor's affidavits or certifications, waivers or releases of mechanics' liens, opinions of counsel, or otherwise, as is customarily furnished to or required by the Trustee in disbursing or paying out construction loans made by the Trustee or as may reasonably be requested by the Trustee in connection with the paying out from time to time of monies from the Construction Fund pursuant to this Section 3.03.

(c) A certificate of an Independent Engineer stating that he has read each Written Request prepared responsive to subdivision (a) above and (insofar as it relates to the acquisition or construction of the Project) approves the payment to be made pursuant to said order as a payment or reimbursement for a portion of the cost of the completion of the acquisition and construction of the Project, and whether in the opinion of said Independent Engineer, in reliance on said Written Request and assuming the amounts remaining in the Construction Fund, there will, after payment of the amount requested in said order, be sufficient funds to pay the cost of completing the acquisition and construction of the Project, all in accordance with plans and specifications and building permits approved by the Independent Engineer and on file with the Trustee. "Independent Engineer" as used in this Section 3.03 shall mean the architect, engineer or firm of architects or engineers selected by the City and approved by the Trustee, which architect, engineer or firm of architects or engineers shall have no specific interest, direct or indirect, in the City or the Purchaser and, in the case of an individual, shall not be a trustee, officer or employee of the City or the Purchaser and, in the case of a firm, shall not have a partner, director, officer or employee who is a trustee, officer or employee of the City or the Purchaser.

(C) The City shall cause to be submitted to the Trustee monthly progress reports concerning the construction of the Project and shall deliver to the Trustee within 90 days after the completion of the Project the following:

(a) A certificate of an Independent Engineer:

(1) stating that the construction of the Project has been fully completed in accordance with the plans and specifications, as then amended, and the date of completion; and

(2) stating that he has made such investigation of such sources of information as are deemed by him to be necessary, including pertinent records of the City, and is of the opinion that the Project has been fully paid for and no claim or claims exist against the City or against its properties out of which a lien based on furnishing labor or material exists or might ripen; provided, however, there may be excepted from the foregoing statement any claim or claims out of which a lien exists or might ripen in the event that the City intends to contest such claim or claims, in which event such claim or claims shall be described; provided, further, that it shall be stated that funds are on deposit in the Construction Fund or are available from other sources sufficient to make payment of the full amount which might in any event be payable in order to satisfy such claim or claims.

(b) In the event the certificate of the Independent Engineer filed with the Trustee responsive to subdivision (a) above shall state that there is a claim or claims in controversy which create or might ripen into a lien, there shall be filed with the Trustee a certificate of the Independent Engineer when and as such claim or claims shall have been fully paid.

(D) If after payment by the Trustee of all Written Requests theretofore tendered to the Trustee under the provisions of subsection (B) of this Section 3.03 and after receipt by the Trustee of the certificate mentioned in subsection (C)(a) of this Section 3.03, there shall remain any balance of monies in the Construction Fund, such monies shall be deposited in the Revenue Fund created under Section 4.01 hereof.

(E) Monies at any time on deposit in the Construction Fund shall at the direction of the City be invested or reinvested by the Trustee in Qualified Investments (as defined in Section 4.08 hereof) maturing at such time or times so that the Trustee will be able to pay acquisition and construction costs from time to time upon the order of the City as herein provided. The Trustee shall be entitled to rely upon a schedule of anticipated payments of construction costs provided by an Independent Engineer in scheduling such investments. Any interest or profit on such

investments shall be credited to the Construction Fund and any loss on such investments shall be charged to the Construction Fund. The Trustee shall not be obligated to invest any funds held by it hereunder except as directed by the City, and shall not be obligated to pay interest on any funds not invested pursuant to the terms hereof. The Trustee may sell or present for redemption any obligations so purchased whenever it shall be necessary in order to provide monies to meet any payment pursuant to this Section 3.03 and the Trustee shall not be liable or responsible for any loss resulting from such investments.

(F) Whenever the Trustee shall deem it necessary or desirable that a matter be proved or established prior to taking or suffering any action pursuant to the provisions of this Section 3.03, such matter (unless the evidence in respect thereof be herein specifically prescribed) may in the absence of bad faith on the part of the Trustee be deemed to be conclusively proved and established by a certificate signed by the Mayor or the Commissioner of Public Utilities of the City, and such certificate shall be full warrant to the Trustee for any action taken or suffered by it upon the faith thereof.

Section 3.04. Subject to the provisions of Section 3.05, one or more series of Bonds in addition to the Bonds may be authenticated and delivered from time to time for the purpose of (i) refunding and prepaying any series of outstanding Bonds, (ii) advance refunding of any series of outstanding Bonds by depositing with the Trustee, in trust for the sole benefit of such series of Bonds, direct or indirect obligations of the United States of America in a principal amount and satisfactory to the Trustee which will, together with the income or increment to accrue thereon be sufficient to pay or redeem and discharge the indebtedness of all Bonds to be refunded for such series at or before their respective maturity dates, (iii) obtaining funds to complete construction of the Project but only upon receipt by the Trustee of a certificate of an Independent Engineer stating that such funds are needed to complete the Project; (iv) obtaining funds to acquire or construct Additional Facilities and (v) obtaining funds to pay the costs to be incurred by the City in connection with the issuance and sale of such additional series (including reserve funds) and interest during the estimated construction period of such Additional Facilities, if any, when authorized by ordinance or ordinances of the City Council of the City which shall specify:

(a) The authorized principal amount of such series, the designation and denomination or denominations thereof, and the directions for the authentication and delivery of the Bonds upon payment of the purchase price therein set forth.

(b) The purposes for which such series is being issued.

(c) The date of such series and maturity dates and amounts of the Bonds thereof, provided that the latest final maturity date of any such series shall be not later than the final effective date of the Power Sales Agreement.

(d) The interest rate or rates of the Bonds of such series and the interest payment dates therefor, provided that the interest rate or rates shall be identical for all Bonds of a like maturity of the same series and the interest payment dates shall be semiannual and shall be identical as to month and day for all Bonds of the same series.

(e) The redemption premium and redemption terms, if any, for Bonds of such series.

(f) The form of supplemental indenture authorizing such series, pledging and assigning additional revenues, if any, establishing any required construction fund, and providing for the amounts, if any, to be deposited in the respective funds described in Article IV hereof.

(g) Any other matters deemed appropriate or necessary by the City Council of the City and not inconsistent with the provisions of this Indenture.

In the event any series of Bonds is advance refunded as provided in clause (ii) above, all payments received by the Trustee on any direct or indirect obligations of the United States of America held for the benefit of such series shall be deposited in a separate trust fund for the sole benefit and payment of the series of Bonds being so advance refunded.

Section 3.05. The Bonds of each series other than the first series of Bonds shall be executed by the City and delivered to the Trustee, and thereupon shall be authenticated by the Trustee and delivered to or upon the Written Request of the City, but only upon receipt by the Trustee of:

(a) A copy of the ordinance or ordinances referred to in Section 3.04 hereof, certified by the Auditor of the City.

(b) An executed counterpart of the supplemental indenture referred to in Section 3.04 hereof.

(c) An Opinion of Counsel to the effect that (i) such Bonds are valid and binding obligations of the City and enforceable in accordance with their terms and the terms of

this Indenture, subject to bankruptcy and insolvency laws and (ii) such Bonds have been duly and validly authorized and issued in accordance with law and this Indenture.

(d) A certificate of the Mayor or Auditor of the City stating that the Bonds to be authenticated have not been theretofore issued on the basis of the supplemental indenture and that on the date of the authentication and delivery of such Bonds the City is not in default in the performance or observance of any of the covenants, conditions, agreements or provisions of this Indenture.

(e) A written opinion of nationally recognized bond counsel to the effect that the issuance of the Bonds of the new series will not adversely affect the tax-free nature for Federal income tax purposes of interest earned by the Holders of Bonds theretofore issued.

(f) The purchase price of the Bonds being delivered as stated in the resolution referred to in Section 3.04 hereof.

(g) A Written Request of the City for the authentication and delivery of such Bonds and directing the disbursement of the proceeds by the Trustee.

In the event the new series of Bonds are for completing the Project as provided under Section 3.04 (iii) hereof, a certificate of an Independent Engineer shall be furnished to the Trustee stating that such funds are needed to complete the Project.

Concurrently with the issuance of any completion Bonds as provided under Section 3.04(iii) hereof, the City shall increase the amounts in the Debt Service Fund and in the Debt Service Reserve Fund by depositing additional amounts therein as required to comply with the provisions of Sections 3.02(a) and (b) hereof.

In the event the new series of Bonds is for the purposes described in Section 3.04(iv), a written consent of the Purchaser to the issuance of any such series of Bonds, executed by its president or vice president and its secretary or assistant secretary, describing the series, the amount of Bonds and the purpose for their issuance, shall be furnished to the Trustee.

Such Bonds may be authenticated, delivered and paid for in installments of less than the total authorized principal amount of a series from time to time as the City may direct in its Written Request.

All Bonds shall be equally and ratably secured both as

to principal, premium, if any, and interest by this Indenture.

ARTICLE IV

DISPOSITION OF REVENUES

Section 4.01. The City shall establish with the Trustee and maintain so long as any of the Bonds are outstanding a separate account to be known as the "City of Portland, Oregon Revenue Fund" (hereinafter called the "Revenue Fund"). All Gross Revenues shall be paid by the Purchaser directly to the Trustee but for the City's account, in strict accordance with the terms of the Power Sales Agreement (by check or by customary bank credit transactions), for deposit into the Revenue Fund and disbursed by the Trustee from the Revenue Fund in the manner hereinafter provided in this Article.

Section 4.02. The City shall establish with the Trustee and maintain so long as any of the Bonds are outstanding a separate account to be known as the "City of Portland, Oregon Debt Service Fund" (hereinafter called the "Debt Service Fund") and within such fund two separate accounts to be known as the "Principal and Sinking Fund Account" and the "Interest Account". An initial deposit to the credit of the Interest Fund is to be made under the provisions of Section 3.02(a). On the twentieth day of each calendar month (or on the first business day thereafter if the twentieth is not a business day) beginning with the twentieth day of October, 1982, the Trustee shall deposit in the Interest Account from monies in the Revenue Fund an amount equal to one-sixth of the interest to become due on the next ensuing interest payment date on the Bonds; provided, however, that no such deposit need be made if monies in the Interest Account are already in an amount sufficient to pay interest on the next ensuing interest payment date on the Bonds. Monies in the Interest Account shall be used by the Trustee to pay interest on the Bonds as it becomes due. Any interest earned on investments of monies in the Interest Account shall remain in the account for payment of interest next coming due.

Section 4.03. On the twentieth day of each calendar month (or on the first business day thereafter if the twentieth is not a business day) beginning with the twentieth of October, 1982, after making the payments required by Section 4.02, the Trustee shall deposit in the Principal and Sinking Fund Account from monies in the Revenue Fund an amount equal to one-twelfth of the principal to become due on the next ensuing principal payment date on the Bonds as provided in Section 5.02 or one-twelfth of the minimum sinking fund payment required to be made pursuant to

said Section on the next succeeding minimum sinking fund payment date, as such minimum sinking fund payments and minimum sinking fund payment dates are set forth in said Section.

The Trustee shall apply all such minimum sinking fund payments, as rapidly as may be practicable, to the purchase of term Bonds at public or private sale as and when and at such prices (including brokerage and other expenses, but excluding accrued interest, which is payable from the Interest Fund) as the Trustee may in its discretion determine, but at not to exceed the par value thereof.

If on any August 15, beginning August 15, 2005, the monies in the Principal and Sinking Fund Account, together with amounts receivable under the Power Sales Agreement before the next succeeding October 1 equal or exceed \$25,000, such monies shall be applied by the Trustee to the redemption on the next succeeding interest payment date of as many term Bonds as such monies in the Principal and Sinking Fund Account shall suffice to redeem. All Bonds purchased or redeemed under the provisions of this Section shall be delivered to, and cancelled and destroyed by, the Trustee and shall not be reissued.

No application of any monies to the retirement of outstanding Bonds shall operate to impair or affect the obligation of the City to make minimum sinking fund payments for Bonds in the amounts and at the times provided in this Section; provided, however, that the City shall not be deemed to be in default with respect to any minimum sinking fund payment for any minimum sinking fund payment date if at such minimum sinking fund payment date the aggregate principal amount of all term Bonds theretofore purchased or called and retired through the operation of the Principal and Sinking Fund Account (together with any monies then in the Principal and Sinking Fund Account) equals or exceeds the aggregate amount of all minimum sinking fund payments for term Bonds then and theretofore due and payable; provided, however, that no such deposit need be made if monies in the Principal and Sinking Fund Account are already in an amount sufficient to pay principal on the next ensuing principal payment date on the Bonds or to redeem Bonds as heretofore stated. Any interest earned on investments of monies in the Principal and Sinking Fund Account shall be deposited to the Interest Account for payment of interest next coming due.

Section 4.04. The City shall establish with the Trustee and maintain so long as any of the Bonds are outstanding a separate account to be known as the "City of Portland, Oregon Debt Service Reserve Fund" (hereinafter called the "Debt Service Reserve Fund"). An initial deposit to the credit of the Debt Service Reserve Fund, sufficient to produce by October 1, 1982 the Debt

Service Reserve Fund Requirement, will be made under the provisions of Section 3.02(b) hereof. On the twentieth day of each calendar month period (or on the first business day thereafter if such twentieth day is not a business day), beginning with the twentieth day of October, 1982, after making the payments if any required by Sections 4.02 and 4.03, the Trustee shall deposit in the Debt Service Reserve Fund from monies in the Revenue Fund, an amount which, together with any amount already on deposit in the Debt Service Reserve Fund, will make the amount on deposit in such Fund equal to the Debt Service Reserve Fund Requirement. Monies on deposit in the Debt Service Reserve Fund shall be used to make up any deficiencies in the Interest Account and the Principal Account if on any date when interest on or principal of Bonds is due, monies on deposit in either of such Accounts is insufficient to meet such payments. Any interest earned on investments of monies in the Debt Service Reserve Fund shall be deposited to the Debt Service Reserve Fund.

If on any October 2nd the amount on deposit in the Debt Service Reserve Fund shall exceed the Debt Service Reserve Fund Requirement, then such surplus shall be transferred to the Principal Account, in an amount not to exceed the principal amount of Bonds becoming due on the next succeeding October 1st. If after making such deposit to the Principal Account, a surplus still exists in the Debt Service Reserve Fund, then such remaining surplus shall be deposited to the credit of the Interest Account. In the event there remains monies in excess of the Debt Service Reserve Fund Requirement in the Debt Service Reserve Fund after the Principal and Interest Accounts have been credited with sufficient monies to pay the next due principal and interest payments to Bondholders, all such excess monies shall be deposited to the Surplus Fund hereinafter created.

In computing the Debt Service Reserve Fund Requirement at any time, (i) the Trustee shall give effect to any optional Bond redemptions which have in fact occurred and to any redemptions through mandatory sinking fund payments which have in fact occurred or which are scheduled to occur pursuant to the terms hereof or any indenture supplemental hereto and (ii) principal and interest on any series of Bonds which have been refunded under clause (ii) of Section 3.04 hereof, shall not be included in any such determination of the Debt Service Reserve Fund Requirement.

Section 4.05. The City shall establish with the Trustee and maintain so long as any of the Bonds are outstanding a separate account to be known as the "City of Portland, Oregon Renewal and Replacement Fund" (hereinafter called the "Renewal and Replacement Fund"). An initial deposit to the credit of the Renewal and Replacement Fund will be made as provided in Section 3.02(c) hereof. Anything in this Trust Indenture to the contrary notwithstanding.

standing, all net proceeds from the disposition of any part of the Project shall be paid to the Trustee and deposited by the Trustee in the Renewal and Replacement Fund to be used for the purposes hereinafter described in this Section 4.05. In addition, on the twentieth day of each calendar month (or the first business day thereafter if the twentieth day is not a business day) beginning with the twentieth day of the month following the month in which the date of Completion of Construction (as defined in Section 2(c) of the Power Sales Agreement) occurs, after making the payments, if any, required by Sections 4.02, 4.03 and 4.04, the Trustee shall deposit in the Renewal and Replacement Fund from monies in the Revenue Fund the amount required to be so deposited under Section 2(A)(3) of the Power Sales Agreement. Funds on deposit in the Renewal and Replacement Fund shall be used first to make up any deficiencies in the Debt Service Fund or Debt Service Reserve Fund (in the order listed), and secondly for any repairs, renewal or replacements of the Project or for replacement or purchase of equipment or property for use in its operations as designated in a Written Request by the City to the Trustee. Any interest earned or investments of monies in the Renewal and Replacement Fund shall remain in such Fund. At such time as the Indenture is discharged, any monies remaining in the Renewal and Replacement Fund shall be distributed to the Purchaser provided, however, the monies in the Renewal and Replacement Fund shall be divided equally between the City and the Purchaser, if the resultant of the aggregate share of the Savings Element less any negative Share of the Savings Element, as defined in the Power Sales Agreement, remaining to be offset is a positive number.

Section 4.06. The City shall establish with the Trustee, and maintain so long as any of the Bonds are outstanding, a separate banking account to be known as "City of Portland, Oregon Surplus Fund under that certain Trust Indenture and Indenture of Mortgage from City of Portland, Oregon to United States National Bank of Oregon, as Trustee, dated as of May 1, 1979" (hereinafter called the "Surplus Fund"). Any monies remaining in the Revenue Fund, after making all deposits hereinabove provided for, shall be deposited in the Surplus Fund. Monies in the Surplus Fund shall be used to make up any deficiencies in the Debt Service Fund or the Debt Service Reserve Fund, to pay any expenses associated with the Project, including but not limited to those items listed in Sections 2(a)(4) to 2(a)(7), inclusive, of the Power Sales Agreement, or for any other lawful purpose as directed by the City Council of the City.

Section 4.07. The Trustee shall at all times transfer all monies from the Revenue Fund and shall apply such monies from the Revenue Fund to the setting aside of monies for the foregoing Funds to the extent available in the order of priority of the foregoing Sections. During any period of time in which the monies in the Revenue Fund are insufficient to credit all monies to the foregoing Funds in accordance with said Sections, the Trustee shall credit all available monies to each of the foregoing Funds in the foregoing order until all monies required to be credited thereto have been deposited therein prior to crediting any such monies to any other Fund. At any time that the amount of the Interest Account, Principal and Sinking Fund Account, Debt Service Reserve Fund and Renewal and Replacement Fund are sufficient for such purpose, the Trustee shall, if so directed by the City, apply such monies to the final payments in full of all the Bonds then outstanding, together with interest thereon, with the applicable premium if applied prior to their stated maturity or without premium if applied at their stated maturity, and otherwise in the manner set forth in Article V hereof.

Section 4.08. "Qualified Securities" shall mean any of the following, to the extent that the same are legal for the investment of Bond proceeds and Gross Revenues: (i) direct obligations of, or obligations the principal of and interest on which are unconditionally guaranteed by, the United States of America; (ii) bonds, debentures, notes or participation certificates issued by the Bank for Cooperatives, the Federal Intermediate Credit Bank, the Federal Home Loan Bank System, the Export-Import Bank of the United States, Federal Land Banks, the Federal National Mortgage Association or the Government National Mortgage Association; (iii) Public Housing Bonds and Project Notes fully secured by contracts with the United States; and (iv) bank time deposits or certificates of deposit secured by obligations described in (i), (ii) and (iii) above or by general obligations of the State of Oregon or any political subdivision thereof which are rated in the two highest rating categories by two nationally recognized bond rating agencies and are eligible under the laws of the State of Oregon to be used as collateral for funds of the City.

Monies in the Debt Service Fund shall be invested in Qualified Securities which shall mature prior to the respective dates when such monies will be required for the purposes intended. Monies in the Debt Service Reserve Fund not required for immediate disbursement shall be invested in Qualified Securities maturing, or subject to redemption at the option of the holder thereof, within 7 years from the date of such investment (but maturing prior to the final maturity date of the Bonds). Monies in the Revenue Fund, Renewal and Replacement Fund and Construction Fund not required for immediate disbursement shall be invested in

obligations in which funds of the City may legally be invested, maturing at such times and in such amounts as shall be required to provide monies to make the payments required to be made from said Funds.

The City and the Trustee covenant and agree that such monies shall be invested in such manner so that Bonds issued hereunder shall not become "arbitrage bonds" within the meaning of Section 103(d) of the Internal Revenue Code of 1954, as amended, and any regulations promulgated thereunder.

Section 4.09. All monies received by the Trustee under the provisions of this Indenture shall be trust funds under the terms hereof and shall not be subject to lien or attachment of any creditor of the City. Such monies shall be held in trust and applied in accordance with the provisions of this Indenture.

Section 4.10. In computing the assets of any Fund established hereunder and held by the Trustee, the Trustee may at any time, but at least as of the twentieth day of each calendar month period shall, make a valuation of the assets of each Fund held by the Trustee hereunder. In determining if amounts on deposit in each Fund are sufficient to make the payments required hereunder as the same become due and payable, the Trustee shall value investments of monies held in each Fund, excepting the Debt Service Reserve Fund, at cost or the market price thereof, whichever is lower, inclusive of accrued interest. In computing the amount of the Debt Service Reserve Fund, investments of monies therein shall be valued at par if purchased at par or at Amortized Value if purchased at other than par, in either event inclusive of accrued interest.

"Amortized Value" as used herein, with respect to securities purchased at a premium above or a discount below par, shall mean the value as of any given date obtained by dividing the total amount of the premium or discount at which such securities were purchased by the number of days remaining to maturity on such securities at the time of such purchase and by multiplying the amount so calculated by the number of days having passed since the date of such purchase; and (i) in the case of securities purchased at a premium, by deducting the product thus obtained from the purchase price, and (ii) in the case of securities purchased at a discount, by adding the product thus obtained to the purchase price.

ARTICLE V

REDEMPTION OF BONDS

Section 5.01. There is hereby created a "City of Portland, Oregon Condemnation and Insurance Proceeds Redemption Fund" (hereinafter called the "Redemption Fund") and any and all monies deposited therein shall be held by the Trustee in trust for the purpose of redeeming Bonds. Monies deposited in the said Redemption Fund pursuant to Section 6.19 shall be applied to the redemption of Bonds (notwithstanding any non-callable provisions applicable to such Bonds) by lot in the inverse order of maturity (each \$5,000 of principal of fully registered Bonds to be assigned one number) and upon the notice and in the manner hereinafter provided in this Article V. Bonds redeemed pursuant to this Section shall be redeemed at a price of 103% of principal amount thereof if such redemption is prior to October 1, 1990 and at par if on or after October 1, 1990.

Should any act or omission to act of the Purchaser result in interest on the Bonds being includable in the gross taxable income of the Bondholders, all (but not part) of the Bonds then outstanding shall be immediately redeemable, at the option of the City, such redemption to be at a price of 103 percent of principal amount thereof if such redemption is prior to October 1, 1990 and at par if on or after October 1, 1990. If the City does not elect to redeem the Bonds then outstanding, the interest rate to be paid thereon, from and after the first date the interest thereon is determined to be taxable, shall increase to ten percent (10%) per annum and the City shall deposit into the Debt Service Fund, Interest Account, sufficient monies to pay Bondholders, or reimburse former Bondholders, the difference between ten percent (10%) per annum and the interest rate actually paid by the City to such Holders or former Holders of the Bonds. If the City elects to redeem the Bonds, monies therefor shall be deposited into the Redemption Fund and shall be applied to the redemption of Bonds as provided in this Article V.

If monies received by the Trustee are not sufficient to pay principal and interest on Bonds of each series until the next succeeding redemption date on which Bonds of such series may be redeemed and to redeem all of the Bonds of such series on such redemption date, the Trustee shall, upon receipt, allocate such monies among the various series of Bonds outstanding (on the basis of the principal amount of each series then outstanding) in such manner so that a prorata portion of the principal amount (to the nearest principal amount which is or will be redeemable of each series then outstanding) shall be redeemed on the next succeeding redemption date on which Bonds of such series may be

redeemed in accordance with the terms thereof. In such event the Trustee shall hold monies available for the redemption of a particular series for the benefit of such series and shall redeem Bonds of such series at the next succeeding redemption date on which Bonds of such series may be redeemed. Monies so held by the Trustee shall be invested and reinvested by the Trustee as directed by the City in direct obligations of the United States of America maturing not later than the date of which Bonds of the series for which such monies are held are next redeemable in accordance with the terms thereof.

Notice of redemption shall be given by publication at least once in an Authorized Newspaper, the first publication to be not less than 30 nor more than 60 days before the redemption date. If any Bond called for redemption is fully registered, notice of redemption thereof shall also be mailed, not less than 30 nor more than 60 days prior to the redemption date, to each registered owner of such Bond, but neither failure to mail such notice nor any defect in any notice so mailed shall affect the sufficiency of the proceedings for the redemption of any of the Bonds. Each notice of redemption shall state the redemption date, the place of redemption, the principal amount and, if less than all of a maturity, the distinctive numbers of the Bonds to be redeemed, and shall also state that the interest on the Bonds in such notice designated for redemption shall cease to accrue from and after such redemption date and that on said date there will become due and payable on each of said Bonds the principal amount thereof to be redeemed, interest accrued thereon to the redemption date and the premium, if any, thereon (such premium to be specified). If at the time of giving notice of redemption, no Bonds are outstanding hereunder except fully registered Bonds, publication of such notice shall be deemed to have been waived if such notice shall have been mailed first class postage prepaid to the registered owner or owners of such Bonds.

Section 5.02. With respect to the redemption of Bonds through the Debt Service Fund, the following provisions shall apply:

FIRST: The City shall deposit in the Debt Service Fund, Principal and Sinking Fund Account monies in the amounts and at the times, respectively, to redeem Bonds as follows:

By October 1 of the year	Principal Amount To Be Redeemed
2005	\$ 1,325,000
2006	1,400,000
2007	1,500,000
2008	1,600,000
2009	1,700,000
2010	1,825,000
2011	1,950,000
2012	2,075,000
2013	2,225,000
2014	2,375,000
2015	2,525,000
2016	2,700,000

Monies deposited in the Principal and Sinking Fund Account on or prior to each October 1 of the above years shall be applied by the Trustee to the purchase or redemption of Bonds on each such October 1 in the principal amounts shown above.

SECOND: Bonds may be redeemed, at the option of the City on October 1, 1989 (but not prior thereto) or on any interest payment date thereafter, in whole or in part in inverse order of maturity (less than all Bonds of a single maturity to be selected by lot in such manner as may be designated by the Trustee and each registered Bond to be given a separate number for each \$5,000 unpaid), or for the purpose of refunding in whole, but not

in part, and by lot if in part (each \$5,000 of principal of fully registered Bonds to be assigned one number). Bonds when so redeemable are redeemable at the principal amount of the Bonds so to be redeemed and accrued interest thereon to the date of redemption, plus a premium equal to three percent (3%) of such principal amount if redeemed on October 1, 1989 or April 1, 1990; two and one-half percent (2-1/2%) if redeemed on October 1, 1990 or April 1, 1991; two percent (2%) if redeemed on October 1, 1991 or April 1, 1992; one and one-half percent (1-1/2%) if redeemed on October 1, 1992 or April 1, 1993; one percent (1%) if redeemed on October 1, 1993 or April 1, 1994; one-half percent (1/2%) if redeemed on October 1, 1994 or April 1, 1995, and without premium if redeemed on October 1, 1995 or thereafter. At least thirty (30) days prior to the redemption date the City shall deposit sufficient funds with the Trustee to redeem Bonds as provided in this paragraph and otherwise upon the notice and in the manner provided in this Article V.

THIRD: In case of the partial redemption of any fully registered Bond, the notice of redemption shall specify the portion of the principal amount thereof to be redeemed (which shall be \$5,000 or a multiple thereof) and shall state that payment of the redemption price will be made only upon presentation of such fully registered Bond for notation thereon of such payment on account of principal or for surrender in exchange for a coupon Bond or Bonds or a fully registered Bond or Bonds of authorized denominations in aggregate principal amount equal to the unredeemed portion of the principal amount thereof.

Bonds of each series (other than the first series of Bonds) are redeemable in the manner, at the time or times and at the premiums, if any, to be specified in the supplemental indenture relating to such series.

Section 5.03. Notice having been given in the manner and under the conditions hereinabove provided, the monies for payment of the redemption price being held by the Trustee as provided in this Indenture, (i) the Bonds so called for redemption shall, on the redemption date designated in such notice, become due and payable at the redemption price provided for redemption of such Bonds on such date, and interest on the Bonds so called for redemption shall cease to accrue, (ii) the coupons for interest thereon maturing subsequent to the redemption date shall be void, (iii) such Bonds shall cease to be entitled to any lien, benefit or security under this Indenture, and (iv) the holder of said Bonds shall have no rights in respect thereof except to receive payment of the redemption price thereof.

All unpaid interest installments represented by coupons which shall have matured on or prior to the date of redemption

designated in such notice shall continue to be payable to the bearers severally and respectively upon the presentation and surrender of such coupons.

Bonds so redeemed and all unmatured coupons appertaining thereto shall be cancelled upon surrender thereof and shall be cremated or disposed of as directed in writing by the City to the Trustee.

ARTICLE VI

PARTICULAR COVENANTS

Section 6.01. The City covenants that it will promptly pay, but only from Gross Revenues, the principal of and interest on every Bond issued under the provisions of this Indenture at the places, on the dates and in the manner provided herein and in said Bonds and in any coupons appertaining to said Bonds, and any premium required for the retirement of said Bonds by purchase or redemption, according to the true intent and meaning thereof.

Section 6.02. So long as any of the Bonds shall remain outstanding and unpaid, the City will not directly or indirectly extend or assent to the extension of the time for the payment of any interest coupon or claim for interest of or upon any Bond, and will not directly or indirectly be a party to any arrangement therefor, either by purchasing or refunding or in any manner keeping alive such interest coupon or claim for interest, or otherwise; that in case the payment of any such interest coupon or claim for interest shall be so extended by or with or without the consent of the City, then, anything in this Indenture contained to the contrary notwithstanding, such interest coupon or claim for interest so extended shall not be entitled, in case of default hereunder, to any benefit of or from this Indenture, except after the prior payment in full of the principal of all Bonds issued hereunder and of such interest coupons and claims for interest as shall not have been so extended.

Section 6.03. The City covenants that it will not consent voluntarily to any amendment or rescission of the Power Sales Agreement or take any action in connection with the Power Sales Agreement which would in any manner impair or adversely affect the rights of the Bondholders; provided, however, that the City may terminate the Power Sales Agreement in the event the Purchaser should default thereunder and such termination is in the best interests of the Bondholders.

Section 6.04. The City covenants and warrants that it lawfully owns and is, or will be, lawfully possessed of the

Project, and has or will have good and indefeasible estate therein in fee simple subject to encumbrances permitted hereunder, and that it will forthwith construct thereon to completion the portions of the Project not presently in existence.

The City covenants that it will not, directly or indirectly, create, assume, incur or suffer to exist any mortgage, pledge, encumbrance, lien or charge of any kind upon the Project or, other than the lien of this Indenture and any of the matters set forth in the granting and pledging clauses hereof, the Gross Revenues except the following, which shall be considered as not materially impairing the security hereof:

(a) any easements, rights of way, restrictions and reservations (other than easements, rights of way, restrictions and reservations securing or constituting a lien or charge for the payment of money or its equivalent) existing by operation of law or otherwise, over, under, upon or against the Project or any part thereof and which are not detrimental to the operation of the Project;

(b) liens in connection with workmen's compensation, unemployment insurance, taxes, assessments, statutory obligations or liens, social security legislation, undetermined liens and charges incidental to construction, or other similar charges arising in the ordinary course of operation and not overdue or, if overdue, being contested in good faith and such other liens and charges at the time required by law as a condition precedent to the transaction of the hydroelectric power operation or the exercise of any privileges or licenses necessary to the City;

(c) zoning laws and ordinances and similar restrictions and leases existing at the date hereof and renewals and substitutions thereof;

(d) liens permitted pursuant to the provisions of Section 6.07 hereof.

Section 6.05. The City covenants that it will cause this Indenture to be filed, registered and recorded to protect the security of the Holders of the Bonds and the right, title and interest of the Trustee in and to the trust estate or any part thereof, and from time to time will perform or cause to be performed any other act as provided by law, and execute or cause to be executed any and all further instruments that shall reasonably be requested by the Trustee for such protection of title, and will furnish satisfactory evidence of such recording, registering, filing and refiling, and will furnish similar evidence of recording, registering, filing and refiling of every additional instrument

which shall be necessary to preserve the lien of this Indenture upon the trust estate until the principal of and interest on the Bonds issued under this Indenture shall have been paid. The City shall pay all recording and registration taxes and fees, together with all expenses incidental to the execution, acknowledgment, filing, registering and recording of this Indenture and of any instrument of further assurance, and all other charges imposed upon the Bonds or upon this Indenture.

Section 6.06. The City covenants and agrees that it will, upon reasonable request by the Trustee, execute and deliver such further instruments and do such further acts as may be necessary or proper to carry out more effectually the purposes of this Indenture and to transfer to any new trustee the estate, powers, instruments and funds held in trust hereunder, which it is herein provided shall be subject to the lien hereof.

Section 6.07. The City covenants and agrees that it will not suffer any mechanics', laborers', statutory or other similar lien which might or could be held to be prior to or on a parity with the lien of this Indenture to remain outstanding upon the Project, or any part thereof; provided that nothing contained in this Section shall be construed to require the City to pay, acquire or make provision for any such lien or charge so long as the City in good faith shall contest the validity thereof, and security for the payment of the same, satisfactory to the Trustee, shall be furnished.

Section 6.08. The City covenants and agrees that it will at all times maintain, preserve and keep the Project and every part thereof in good condition, repair and working order and will from time to time make all needful and proper repairs, replacements, additions, betterments and improvements so that the operations and business pertaining to the Project and every part thereof shall at all times be conducted properly and advantageously; and whenever any portion of the Project shall have been worn out or destroyed or shall have become obsolete, inefficient or otherwise unfit for use, the City will procure and install substitutes of at least equal value, utility and efficiency so that the value and efficiency of the Project shall at all times be fully maintained. The City will contract with the Purchaser to fully comply with the terms of the covenant herein, subject only to the limitations of renewal and replacement in the Power Sales Agreement.

The City will retain a nationally recognized independent consulting engineer or engineering firm (the "Consulting Engineer") to render continuous engineering counsel in the operation of the Project. In addition to his other duties, the Consulting Engineer shall not later than 18 months after the date of Completion of Construction as defined in the Power Sales Agreement, and at least once during each 3-year period thereafter, make a physical

examination of the Project, and prepare a report based upon such examination and a survey of the operation and maintenance of the Project. Each report is to show, among other things, whether the City has satisfactorily performed and complied with certain covenants in the Indenture. The Consulting Engineer is also required to report to the Trustee and the City upon the economic soundness and feasibility of all contemplated renewals, replacements, additions, betterments and improvements to, and extensions of, the Project (excluding costs of normal operation and maintenance) involving the expenditure of \$50,000 or more. The Consulting Engineer is also required to file annually a certificate with the Trustee describing the insurance then in effect and stating whether or not such insurance reasonably complies with the requirements of the Indenture. In the event of any loss or damage in excess of \$250,000, whether or not covered by insurance, the Consulting Engineer is to ascertain the amount of such loss or damage and deliver to the City a certificate setting forth the amount and nature of such loss or damage, together with recommendations as to whether or not the properties affected by such loss or damage should be replaced. Copies of any such triennial report, annual certificate as to insurance, or certificate in respect of any such loss or damage will be sent to Bondholders filing with the City written requests therefor.

Section 6.09. The City will from time to time pay the Trustee reasonable compensation for its services, and will reimburse and save harmless the Trustee from and against all expenses, liability and damage incurred by the Trustee in connection with the execution of trusts and powers hereunder except expenses, liabilities and damages which arise from its own negligence or want of good faith.

Section 6.10. The City covenants and agrees that it will not suffer or permit any default to occur under this Indenture, and will faithfully observe and perform all of the conditions, covenants and requirements hereof obligatory upon it. The City covenants and agrees that it will not go into voluntary bankruptcy or insolvency, or apply for or consent to the appointment of a receiver or trustee of itself or of its property or make any general assignment for the benefit of its creditors, or suffer any order adjudicating it to be bankrupt or insolvent or appointing a receiver or trustee of it or of its property.

Section 6.11. The City covenants and agrees that it is duly authorized under the laws of the State of Oregon and under all other applicable provisions of law to create and issue the Bonds, to execute and deliver this Indenture, and to pledge the property conveyed and assigned by it hereunder; that all corporate and other action on its part for the creation and issue of the Bonds and the execution of this Indenture has been duly and

effectually taken; that the Bonds when issued and in the hands of the Holders thereof are and will be valid and enforceable obligations of the City; that this Indenture is and always will be a valid indenture to secure the payment of the Bonds; that the City now has or will use its best efforts to obtain complete and lawful authority and privilege to maintain and operate the Project and that no licenses [including but not limited to the license from the Federal Energy Regulatory Commission ("FERC")], permits, rights, franchises or privileges of the City will be allowed to lapse or be forfeited so long as the same shall be necessary for the operations of the City and that it will procure the extension or renewal of each and every right, franchise or privilege so expiring and necessary or desirable for the operation of the Project.

Section 6.12. The City covenants and agrees that it will not issue, or permit to be issued, any Bonds hereunder in any manner other than in accordance with the provisions of this Indenture and the agreements in that behalf contained.

Section 6.13. The City will keep proper books of account in accordance with the rules and regulations prescribed by any governmental agency authorized to prescribe such rules, including the State Auditor's office of the State of Oregon, and in accordance with the Uniform System of Accounts prescribed by FERC. Such books of account are to be audited annually by a firm of independent certified public accountants of national reputation experienced in electric utility accounting. Bondholders may obtain copies of the annual financial statements showing the financial condition of the Project and the annual audit report by sending a written request therefor to the City.

Section 6.14. The City covenants and agrees that it will do and perform all matters or things necessary or expedient to be done or performed by reason of any law of the United States of America, or of the State of Oregon, for the purpose of creating, performing and maintaining the trust hereby created for the security of the payment of the Bonds and the interest thereon, and to perform all of the obligations hereby imposed upon the City.

Section 6.15. The City agrees that it will not use, or permit to be used, any of the property acquired out of the Bond proceeds or any other monies or funds in such manner as would result in loss of tax exemption of interest on its Bonds otherwise afforded under Section 103(a) of the Internal Revenue Code.

The City further covenants and agrees that it will not, and will not cause the Trustee to, make any investment or do any other act during the period that any Bonds are outstanding under

the Indenture, as amended and supplemented, which would cause such Bonds to become or be classified as Arbitrage Bonds within the meaning of Section 103(c) of the Internal Revenue Code of 1954, as amended, and any regulations promulgated thereunder.

Section 6.16. The City will keep that part of the Project acquired and/or constructed from the proceeds of the Bonds insured, to the extent such insurance is available at reasonable cost with responsible insurers and at least to the extent that similar insurance is usually carried by electric utilities operating like properties, against risks of direct physical loss, damage to, or destruction of, the Project, and against any other risk mutually agreed upon by the City and the Purchaser.

In the event that any loss or damage to the Project occurs prior to the date of Completion of Construction, the City is to transfer the insurance proceeds, if any, in respect of such loss or damage, to the Construction Fund; any insurance proceeds received by the City in respect of such loss or damage occurring thereafter is to be transferred into the Renewal and Replacement Fund, or the Redemption Fund as directed or determined by the City pursuant to Sections 6.18 and 6.19 below.

Section 6.17. The City shall maintain, and/or shall cause the Purchaser under the Power Sales Agreement to maintain, so long as any of the Bonds are outstanding, public liability insurance with limits of not less than \$30,000,000 for any one occurrence involving any accident or other incident, to protect the City from claims for bodily injury and/or death which may arise from the Project's operation, including any use or occupancy of its grounds or structures, and shall furnish the Trustee with the policy or policies that shall comprise such insurance. Such policies shall be subject to reasonable increases to reflect social and economic changes and may have deductible clauses in amounts determined by the City and the Purchaser to be reasonable.

Section 6.18. In the event of any loss or damage to or destruction of the Project, the City will forthwith repair or reconstruct the damaged or destroyed portion thereof to the reasonable satisfaction of the Trustee and will apply the proceeds of the insurance policies covering such loss solely for that purpose. If any proceeds received by the Trustee by reason of any particular loss under the insurance policies shall not exceed \$5,000,000, such proceeds shall be paid over by the Trustee to or upon the order of the City upon its Written Request and shall be applied to the extent required, solely for the purpose of repairing or reconstructing or replacing the damaged or destroyed property as aforesaid. If the proceeds received by the Trustee by reason of any such loss shall exceed \$5,000,000, such proceeds shall be

paid out by the Trustee from time to time to or upon the order of the City, but only upon receipt by the Trustee of (1) a Written Request of the City specifying the expenditures made or indebtedness incurred in repairing or reconstructing or replacing the damaged or destroyed property, and that the proceeds of insurance, together with any other monies legally available for such purpose, will be sufficient to complete such repairing or reconstructing or replacing, and (2) if the Holder or Holders of not less than twenty-five percent (25%) of the outstanding Bonds shall request, the written approval of said Written Request by an Independent Engineer, as defined in Section 3.03(B) hereof.

In the event the proceeds of the insurance which shall become payable to the Trustee, together with all other monies legally available for such purpose, are insufficient to complete the repair or reconstruction or replacement of the damaged or destroyed property, said proceeds shall be deposited with and held by the Trustee as security for the Bonds and for the ratable benefit of the Holders thereof.

Any amounts held by the Trustee or by the City and remaining at the completion of, and after payment for, such repair, reconstruction or replacement shall be applied in payment of accrued interest on the Bonds as the same shall become due, or, as directed by the City, to be used to redeem the Bonds according to the redemption provisions hereof if payment of interest shall not be in default.

Section 6.19. In the event of any loss or damage to or destruction of the Project or any portion thereof, and the City shall be unwilling or unable or shall for any reason elect not to repair, reconstruct or replace the damaged or destroyed property forthwith and, in the opinion of the Trustee, such damages shall result in a reduction of the pledged revenues in an amount sufficient to adversely affect the security of the Bonds, then such insurance proceeds shall be deposited in the Redemption Fund for the purpose of redeeming Bonds in the manner provided in Section 5.01 hereof. In the event such insurance proceeds are not sufficient to redeem all Bonds then outstanding, the City shall, from the Gross Revenues, forthwith deposit additional funds in the Redemption Fund for that purpose.

Section 6.20. In the event the Purchaser defaults in its obligations under the Power Sales Agreement and the City elects to terminate the Agreement, the City covenants and agrees that it will first use its best efforts to find one or more other purchasers for the power generated by the Project. The City further covenants that it will use its best efforts to assure the sales price for such power to any other purchaser or purchasers shall be not less in any given year than 125 percent of the total

debt service on the Bonds then outstanding for the immediately following year, plus all costs of operation and maintenance and any other expenses related to the operation of the Project and the servicing of the Bonds.

ARTICLE VII

REMEDIES IN EVENT OF DEFAULT

Section 7.01. Any one or more of the following events shall be considered events of default as said term is used herein, that is to say, if:

A. Default shall be made in the payment of any interest on any of the Bonds when the same shall become payable as therein and herein expressed; or

B. Default shall be made in the payment of the principal of or premium, if any, on any of the Bonds when the same shall become due and payable by lapse of time, declaration, by call for redemption or otherwise; or

C. The City shall issue additional debt for borrowed money contrary to the terms of this Indenture; or

D. Default shall be made in the observance or performance of any of the other covenants, conditions or obligations in the Bonds or in this Indenture expressed, and the City shall not remedy such default or make good such covenants within ninety (90) days after written notice so to do shall have been served upon the City by the Trustee, which may serve such notice in its discretion and shall serve such notice at the written request of the Holders of not less than twenty-five percent (25%) in principal amount of the Bonds then outstanding hereunder and upon being indemnified to its satisfaction; or

E. Final judgment for the payment of money shall be entered against the City and the City shall not discharge the same or cause it to be discharged, or a stay of execution, to be procured thereon within ninety (90) days from the date such judgment becomes final, or shall not within said period of Ninety (90) days or such longer period during which execution on such judgment shall have been stayed, appeal therefrom or from the order, decree or process upon which or pursuant to which such judgment was granted, passed or entered; or

F. Default shall occur under any indenture, agreement or other similar instrument under which the City may be

bound for borrowed money and such default shall continue beyond the period of grace, if any, therein prescribed; or

G. Any property of the City pledged hereunder is sold under judicial process under any lien prior to or on a parity with the lien of this Indenture.

Section 7.02. Upon the happening of any event of default specified in Section 7.01 other than the events of default specified in paragraphs A, B or C of Section 7.01 and the continuance of the same for the period, if any, specified in said Section, the Trustee may, without any action on the part of the Bondholders, and shall upon the happening of any event of default specified in paragraphs A, B or C of Section 7.01 or upon the written request of the Holders of not less than twenty-five percent (25%) in principal amount of the Bonds then outstanding hereunder exclusive of Bonds then owned by the City, and upon being indemnified to its satisfaction, by notice in writing delivered to the City, declare the entire principal amount of the Bonds then outstanding hereunder and the interest accrued thereon immediately due and payable, and the said entire principal and interest shall thereupon become and be immediately due and payable, subject, however, to the right of the Holders of the majority in principal amount of the Bonds then outstanding, by written notice to the Trustee and to the City, to annul such declaration and destroy its effect as hereinafter provided.

The City covenants and agrees in case default shall be made in the payment of any interest on any Bond, or in case default shall be made in the payment of the principal of any Bond when and as the same shall become payable, whether by lapse of time, by declaration, by call for redemption or otherwise, then upon demand of the Trustee the City will pay to the Trustee such amount as shall be sufficient to cover the cost and expense of collection including reasonable compensation to the Trustee, its agents, attorneys and counsel (including attorneys' fees in all trial and appellate courts), and any expense or liability incurred by the Trustee hereunder.

Section 7.03. Upon the happening of any event of default specified in Section 7.01 and its continuance for the period, if any, specified in said Section, then and in every such case the Trustee may, and upon the written request of the Holders of not less than twenty-five percent (25%) in principal amount of Bonds then outstanding and upon being first indemnified by them to its full satisfaction against costs, loss or liability in the premises, shall institute such suit or suits in equity or at law in any court of competent jurisdiction to enforce and protect any of its rights or the rights of the Bondholders (or any of them) hereunder as it may be advised by counsel to be appropriate.

Upon the happening of any event of default specified in Section 7.01, and its continuance for the period, if any, specified in said Section, the Trustee shall be entitled as of right to continue the operation of the Project and to exercise all other rights and powers of receivers in equity in connection therewith.

Section 7.04. In case of any sale made under or in accordance with any direction contained in any judgment or decree for the recovery of any indebtedness evidenced by the Bonds or coupons, any purchaser, including any Bondholder or Bondholders or committee of Bondholders, or the Trustee, shall be entitled, for the purpose of making settlement or payment for the property purchased, to use and apply any Bonds and any matured and unpaid coupons outstanding hereunder, by presenting such Bonds and coupons, in order that there may be credited thereon the sum apportionable and applicable thereto out of the net proceeds of such sale, and thereupon such purchaser shall be credited, on account of such purchase price payable by him, with the sum apportionable and applicable out of such net proceeds to the payment of or as credit on the Bonds and coupons so presented, but the provisions of this Section shall not be considered as modifying the provisions of Section 6.02 hereof relating to the extension of the time of payment of interest.

Section 7.05. The Trustee shall, upon the written request of the Holders of the majority in principal amount of the Bonds then outstanding hereunder (exclusive of Bonds then owned by the City) waive any default hereunder and its consequences and rescind any declaration of maturity of principal, except (a) a default in the payment of the principal of any of the said Bonds at the date of maturity specified therein, and (b) a default in the payment of interest unless prior to such waiver or rescission all arrears of interest, with (to the extent legally enforceable) interest (at the same rate per annum as the interest on principal) on overdue installments of interest, and all expenses of the Trustee, shall have been paid or provided for; and in case of any such waiver or rescission, or in case any proceedings taken by the Trustee on account of any such default shall have been discontinued or abandoned or determined adversely, then and in every such case the City, the Trustee, and the Bondholders shall be restored to their former positions and rights hereunder respectively. No such waiver or rescission shall extend to any subsequent or other default, or impair any right consequent thereon. The Trustee shall be entitled to accept and rely upon a City's Certificate as to the amount of Bonds at the time owned by the City.

Section 7.06. No Holder of any Bond or coupon shall have any right to institute any suit, action or proceeding in equity or at law for any remedy hereunder unless such Holder

shall previously have given to the Trustee written notice of such default, and of the continuation thereof as hereinbefore provided, nor unless also the Holders of not less than twenty-five percent (25%) in principal amount of Bonds then outstanding shall have made written request to the Trustee and shall have offered to it a reasonable opportunity either to proceed to exercise the powers hereinbefore granted or to institute such action, suit or proceeding in its own name, and the Trustee shall have refused or unreasonably delayed to comply with such request, nor unless also they or some one or more of the Holders of the Bonds shall have offered the Trustee security and indemnity to the satisfaction of the Trustee against the costs, expenses and liabilities to be incurred therein or thereby, and such notification, request and offer of indemnity are hereby declared in every such case, at the option of the Trustee, to be conditions precedent to any action or cause of action for the appointment of a receiver or for any other remedy hereunder, it being understood and intended that no one or more Holders of Bonds and coupons shall have any right, in any manner whatever, by his or their action to enforce any right hereunder, except in the manner herein provided, and that all proceedings at law or in equity shall be instituted and maintained in the manner herein provided, and for the equal benefit of all Holders of such outstanding Bonds and coupons.

Nothing in this Section or elsewhere in this Indenture or in the Bonds or in the coupons shall, however, affect or impair the obligations of the City which are unconditional and absolute, to pay the principal of and interest on the Bonds to the respective Holders of the Bonds and to the respective Holders of the coupons at the due date in such Bonds and coupons stated, nor affect or impair the right of action, which is also absolute and unconditional of such Holders to enforce such payment against the City as herein provided.

Section 7.07. No remedy herein conferred upon or reserved to the Trustee is intended to be exclusive of any other remedy or remedies, but each and every such remedy shall be cumulative and shall be in addition to every other remedy given hereunder or now or hereafter existing at law or in equity or by statute. No delay or omission to exercise any right or power accruing upon any default continuing as aforesaid shall impair any such right or power or shall be construed to be a waiver of any such default or acquiescence therein, and every such right and power may be exercised from time to time as often as may be deemed expedient.

Section 7.08. All rights of action under this Indenture or under any of the Bonds or coupons may be enforced by the Trustee without the possession of any of the Bonds or coupons or the production thereof in any trial or other proceedings relative thereto, and any such suit or proceedings instituted by the

Trustee shall be brought in its name as Trustee, and any recovery of judgment shall be for the benefit of Holders and owners of the Bonds and coupons.

Section 7.09. All monies collected by or paid to the Trustee under the provisions of this Article, together with any other pledged funds then held by the Trustee, shall be applied at the date fixed by the Trustee for the distribution of such monies as follows:

FIRST: To the payment of the costs and expenses of the collection of such monies, including the fees of attorneys and counsel, and of all other expenses and the charges and liabilities incurred and all advances made by the Trustee under this Indenture, as well as just and reasonable compensation for the services of the Trustee.

SECOND: To the payment of the amounts then due and unpaid upon the Bonds and coupons in respect whereof such monies shall have been collected, ratably and without preference or priority of any kind (except as provided in Section 6.02 hereof), according to the amounts due and payable upon such Bonds and coupons, respectively, upon presentation of the several Bonds and coupons and stamping such payment thereon, if partly paid, and upon surrender and cancellation thereof, if fully paid.

THIRD: To the payment of all other amounts payable by the City under the terms of this Indenture.

FOURTH: To the payment of the surplus, if any, to the City, its successors or assigns, or to whomsoever shall be lawfully entitled to receive the same.

Section 7.10. No recourse under or upon any obligation, covenant, stipulation or agreement contained in this Indenture or in any Bonds or coupons issued hereunder or because of the creation of any indebtedness hereby authorized, shall be had against any officer, agent or employee, past, present or future, of the City, as such, either directly or through the City by the enforcement of any assessment or by any legal or equitable proceeding by virtue of any constitution, statute or other rule of law howsoever established; it being expressly agreed and understood that the Bonds and coupons and this Indenture and the obligations hereby created are solely corporate obligations of the City payable only from the properties pledged to the payment thereof and that no personal liability whatsoever shall attach to or be incurred by such officers, agents or employees of the City because of the incurring of the indebtedness hereby authorized or under or by reason of any of the obligations, covenants, stipulations or agreements contained in this Indenture or in any of the Bonds or

coupons issued hereunder or implied therefrom; and that any and all personal liability of every name and nature and any and all rights and claims against every such officer, agent or employee, whether arising at common law or in equity or created by any constitution, statute or other rule of law, howsoever established, are hereby expressly released and waived as a condition of and as a part of the consideration for the execution and delivery of this Indenture and the issue of the Bonds and coupons.

ARTICLE VIII

DISCHARGE OF THE INDENTURE

Section 8.01. If the City shall pay and discharge the entire indebtedness on all Bonds outstanding in any one or more of the following ways--

- (a) by paying or causing to be paid the principal of (including redemption premium, if any) and interest on all Bonds outstanding, as and when the same become due and payable;
- (b) by depositing with the Trustee, in trust, at or before maturity, money in the necessary amount to pay or redeem (when redeemable) all Bonds outstanding;
- (c) by delivering to the Trustee, for cancellation by it, all Bonds outstanding, together with all unpaid coupons thereto belonging; or
- (d) by depositing with the Trustee, in trust, direct obligations of the United States of America now or hereafter authorized, or obligations both the principal of and interest on which is guaranteed directly or indirectly by the full faith and credit of the United States of America (herein called "United States Government Securities") in such a principal amount or maturing in accordance with the terms thereof in such a principal amount which will, together with the income or increment to accrue thereon, at the maturity thereof, be fully sufficient to pay or redeem (when redeemable) and discharge the indebtedness on all Bonds at or before their respective maturity dates;

and if the City shall also pay or cause to be paid all other sums payable hereunder by the City, then and in that case this Indenture shall cease, determine, and become null and void, and thereupon the Trustee shall, upon Written Request of the City, and upon receipt by the Trustee of a City's Certificate and an Opinion of Counsel, each stating that in the opinion of the signers all

conditions precedent to the satisfaction and discharge of this Indenture have been complied with, including the requirements of Section 9.02, forthwith execute proper instruments acknowledging satisfaction of and discharging this Indenture. The satisfaction and discharge of this Indenture shall be without prejudice to the rights of the Trustee to charge and be reimbursed by the City for any expenditures which it may thereafter incur in connection herewith.

Any monies, funds, securities, or other property remaining on deposit in the Construction Fund, Revenue Fund, Debt Service Fund, Debt Service Reserve Fund, Renewal and Replacement Fund, and Surplus Fund, or in any other fund or investment under this Indenture, (other than said United States Government Securities deposited in trust as above provided) shall, upon the full satisfaction of this Indenture, forthwith be transferred, paid over and distributed to the City.

The City may at any time surrender to the Trustee for cancellation by it any Bonds previously authenticated and delivered, together with all unpaid coupons thereto belonging, which the City may have acquired in any manner whatsoever, and such Bonds and coupons, upon such surrender and cancellation, shall be deemed to be paid and retired.

Section 8.02. Upon the deposit with the Trustee, in trust, at or before maturity, of money or United States Government Securities in the necessary amount to pay or redeem all outstanding Bonds (whether upon or prior to their maturity or the redemption date of such Bonds), provided that if such Bonds are to be redeemed prior to the maturity thereof, notice of such redemption shall have been given as in Article V herein, or provisions satisfactory to the Trustee shall have been made for the giving of such notice, all liability of the City in respect of such Bonds and the coupons appertaining thereto shall cease, determine and be completely discharged and the holders thereof shall thereafter be entitled only to payment out of the money or United States Government Securities deposited with the Trustee as aforesaid for their payment, subject, however, to the provisions of Section 11.05.

ARTICLE IX

MANNER OF EVIDENCING OWNERSHIP OF BONDS

Section 9.01. Any request, direction, consent or other instrument provided by this Indenture to be signed and executed by the Bondholders may be in any number of concurrent writings of similar tenor and may be signed or executed by such Bondholders in person or by agent appointed in writing. Proof of the execution

of any such request, direction or other instrument or of the writing appointing any such agent and of the ownership of Bonds, if made in the following manner, shall be sufficient for any of the purposes of this Indenture and shall be conclusive in favor of the Trustee and the City, with regard to any action taken by them, or either of them, under such request or other instrument, namely:

(a) The fact and date of the execution by any person of any such writing may be proved by the certificate of any officer in any jurisdiction who by law has power to take acknowledgements in such jurisdiction, that the person signing such writing acknowledged before him the execution thereof, or by the affidavit of a witness of such execution; and

(b) The fact of the holding by any holder of Bonds and coupons and the amounts and number of such Bonds and coupons and the date of his holding the same, may be proved by a certificate executed by any trust company, bank, bankers, or other depository (wherever situated), if such certificate shall be deemed by the Trustee to be satisfactory, showing that at the date therein mentioned such person had on deposit with such trust company, bankers or other depository the Bonds and coupons described in such certificate. But nothing in this Article contained shall be construed as limiting the Trustee to the proof hereinbefore specified, it being intended that the Trustee may accept any other evidence of the matters herein stated which to it may seem sufficient; and

(c) The ownership of Bonds fully registered shall be proved by the register of such Bonds.

Any action taken or suffered by the Trustee pursuant to any provision of this Indenture, upon the request or with the assent of any person who at the time is the holder of any Bond or Bonds or coupons, shall be conclusive and binding upon all future holders of the same Bond or Bonds or coupons.

ARTICLE X

THE TRUSTEE

Section 10.01. The Trustee hereby accepts the trusts imposed upon it by this Indenture, but only upon and subject to the terms and conditions hereof including the following:

(a) The Trustee may execute any of the trusts or powers hereof and perform any duties required of it by or

through its attorneys, agents, receivers or employees, and shall be entitled to advice of counsel (who may be counsel for the City) concerning all matters of trust hereof and its duties hereunder, and may in all cases pay such reasonable compensation as it shall deem proper to all such attorneys, agents, receivers and employees as may be reasonably employed in connection with the trusts hereof, and the City covenants and agrees to repay upon demand all such outlays and expenditures so incurred.

(b) The Trustee shall not be responsible for any recitals herein or in the Bonds or coupons, or for the execution, validity, priority or extension of this or any supplemental or confirmatory agreement; and the Trustee shall not be bound to ascertain or inquire as to the performance or observance of any covenants, conditions or agreements on the part of the City or to give notice of any default therein to anyone except as expressly provided for herein; but the Trustee may, but shall be under no duty to, require of the City full information and advice as to the performance of the covenants, conditions and agreements aforesaid.

(c) The Trustee shall be protected in acting upon any notice, request, consent, certificate, order, affidavit, letter, telegram or other paper or document believed by it to be genuine and correct and to have been signed or sent by the proper person or persons, and the Trustee shall not be bound to recognize any person as a Holder of any Bond or coupon or to take any action at his request unless such Bond or coupon shall be deposited with the Trustee, or submitted to it for inspection and his title established to the satisfaction of the Trustee, if the same be disputed.

(d) The Trustee shall not be compelled to do any act hereunder or to commence or defend any suit in respect hereof unless indemnified to its satisfaction, as often as it shall require, against loss, cost, liability and expense.

(e) As to the existence or nonexistence of any fact the Trustee shall, except as otherwise herein expressly provided, be entitled to rely upon a City's Certificate as sufficient evidence of the facts therein contained, and shall also be at liberty to accept a similar certificate to the effect that any particular dealing, transaction or action is necessary or expedient, but it may in its discretion, at the expense of the City, in every case secure such further evidence as it may think necessary or advisable, but shall in no case be bound to secure the same. The Trustee may in relation to this Indenture act upon the opinion or advice of any attorney, valuator, engineer, accountant or other

expert, whether retained by the Trustee, the City or otherwise.

(f) The Trustee shall in no case be liable for any action taken or omitted to be taken by it or any of its agents or employees by it appointed or employed in connection with the execution of said trusts, nor in any other manner answerable or accountable under any circumstances whatsoever, except in the event of negligence or want of good faith.

(g) The Trustee shall not be required to take notice or be deemed to have notice of any default hereunder other than events of default specified in paragraphs A and B of Section 7.01 unless specifically notified in writing of such default by the Holders of not less than twenty-five percent (25%) of the principal amount of the Bonds then outstanding, and all notices or other instruments required by this Indenture to be delivered to the Trustee must, in order to be effective, be delivered at the office of the Trustee.

(h) The Trustee is authorized at any time to permit any Bondholder to inspect any statement or certificate filed with the Trustee under the terms of this Indenture.

(i) The Trustee may buy, sell, own, hold and deal in any of the Bonds or coupons and may initiate or join in any action which the Bondholder may be entitled to take with like effect as if the Trustee were not a party to this Indenture, and may act as a depository of, or as a member of, any committee formed for the protection of the Bondholders.

(j) The Trustee may buy, sell, own, hold and deal in any of the notes or bonds and other evidences of indebtedness of the City, and may maintain any and all other general banking and business relations with the City, with like effect and in the same manner as if the Trustee were not a party to this Indenture.

(k) Except for money deposited in trust hereunder and except as herein otherwise specifically provided, any money received by or deposited with the Trustee under any of the provisions of this Indenture, shall be treated by it until it is required to pay out of the same conformably herewith, as a general deposit, without any liability for interest, save as may be agreed upon in writing by the City and the Trustee.

(l) The Trustee shall be entitled to reasonable compen-

sation for all services by it rendered in the execution of the trusts hereby created, and the City agrees upon demand from time to time, to pay any and all such compensation. The compensation of the Trustee shall not be limited by any provision of law in regard to the compensation of trustees of an express trust, but shall be in such amounts as shall be separately agreed upon from time to time by the Trustee and the City.

(m) The Trustee shall not be required to give or enter into any bond or other security in respect to the execution of the said trusts and powers or otherwise in respect of the premises.

(n) The Trustee shall not be responsible for filing or recordation or re-filing or re-recordation of this Indenture or any additional or supplemental agreement hereto.

(o) The Trustee shall be under no duty, obligation or responsibility to see to the payment of any charges which may at any time be levied or assessed against or imposed upon the City. The Trustee shall be under no duty, obligation or responsibility to see to the insurance of any property of the City or itself to effect or maintain any such insurance, or to receive any policies of insurance or proceeds thereto, or make any investigation or inquiry as to the insurer with which the City shall have insured any of its property or as to the terms or amount of any such insurance.

(p) The Trustee shall be under no duty, obligation or responsibility in respect to the use or disposition of the City of any Bonds and coupons or in respect to the application of any part of the proceeds thereof.

(q) The Trustee shall be under no duty, obligation or responsibility to obtain any certificate, audit, schedule, statement, report or other instrument by any of the provisions hereof required or directed to be delivered or filed with it; and it shall be under no duty to investigate or verify or make any inquiry in respect to any statement contained in any such instrument or the manner in which any computation therein set forth was made, and shall have no duty of any character with respect thereto, except to exhibit such documents as it may have in its possession or give the same from time to time during reasonable banking hours to any Bondholder desiring an inspection thereof.

Section 10.02. The Trustee shall have a lien on a parity with the rights of the Bondholders upon all Gross Revenues for its reasonable compensation and expenses, liabilities,

advances and counsel fees made or incurred in and about the execution of the trust hereby created and the exercise and performance of the powers and duties of the Trustee hereunder, and the costs and expense of defending against any liability in the premises of any character whatsoever, except for the defense of an action against the Trustee for negligence or want of good faith by the Trustee or its agents or employees resulting in a court decision against the Trustee, and the City hereby covenants and agrees to pay unto the Trustee such compensation and all advances, counsel fees and other expenses reasonably made or incurred in and about the execution of the trusts hereby created, together with interest on such advances at the rate per annum equal to one percent (1%) above the prime rate per annum charged by the Trustee bank on its prime bank loans, and to indemnify and hold the Trustee harmless from and against liabilities incurred by the Trustee hereunder except as specified above.

Section 10.03. The Trustee may at any time resign from the trusts hereby created by giving thirty (30) days' written notice to the City and all Registered Owners, or at such shorter period of time as the governing body of the City may accept, and such resignation shall take effect at the end of the shorter of such periods of time. Such notice may be served personally or sent by certified mail.

Should the Trustee consolidate or merge with or transfer substantially all of its corporate trust business to any bank or banks, trust company or other banking institution, such consolidation or merger or transfer shall in no wise affect the rights of the parties hereto, or the Holders of any of the Bonds, and such succeeding corporation shall be the Trustee hereunder, with the same powers and with the same force and effect as if originally named herein.

Section 10.04. Upon payment to the Trustee of all its fees, costs, expenses, commissions, disbursements, outlays and liabilities, the Trustee may be removed at any time by an instrument or concurrent instruments in writing delivered to the Trustee, and to the City, and signed by the Holders of a majority in principal amount of the Bonds then outstanding.

Section 10.05. In case the Trustee shall resign or be removed or dissolved, or otherwise be or become incapable of acting hereunder, or shall be taken under the control of any public officer or officers, or of a receiver appointed by a court, a successor may be appointed by the Holders of a majority in principal amount of the Bonds then outstanding by an instrument or concurrent instruments in writing signed by such Holders or by their attorneys in fact, duly authorized; provided, nevertheless that in case of such vacancy or to avoid any such vacancy the

City, by an instrument executed by order of its governing body, and signed by its Mayor and Commissioner of Public Utilities under its corporate seal, may appoint a temporary trustee until a successor trustee shall be appointed by the Bondholders in the manner above provided; and any such temporary trustee so appointed by the City shall immediately and without further act be superseded by the Trustee so appointed by such Bondholders. Every such successor trustee so appointed shall be a bank or trust company having a capital and surplus of not less than \$10,000,000.

Section 10.06. Any temporary or any successor trustee appointed hereunder shall execute, acknowledge and deliver to its predecessor and also to the City an instrument in writing accepting such appointment hereunder, and thereupon such temporary or successor trustee, without any further act, deed or conveyance, shall become fully vested with all the rights, powers, trust, duties and obligations of its predecessor.

The Trustee, or any successor trustee, ceasing to act shall, nevertheless, on the written request of the City or of the new trustee and at the cost and expense of the City and upon the payment of all sums owing to it hereunder, execute any and every instrument necessary or convenient and proper to transfer to such new trustee, upon the trusts herein expressed, all the rights, powers and trusts of the trustee ceasing to act and all monies and securities in its possession in respect thereof, and shall make good and sufficient delivery to the new trustee, thus fully relieving and discharging the trustee so ceasing to act from all further liability or responsibility either to the City or to the bearers or registered owners of any of the Bonds or bearers of the coupons.

Section 10.07. Any notice to or demand upon the City shall be deemed to have been sufficiently given or served by the Trustee on the City, for all purposes, by being deposited, certified mail, postage prepaid, in the United States mail, addressed (until another address is filed in writing by the City with the Trustee) as follows:

City Auditor
City of Portland
1220 S. W. Fifth Avenue
Portland, Oregon 97204
Attention: Portland Hydroelectric Project

Section 10.08. At any time or times, for the purpose of meeting any legal requirements of any jurisdiction in which any part of the trust estate may at any time be located, the City and the Trustee shall have power to appoint, and, upon the request

of the Trustee or of the Holders of at least twenty-five percent (25%) in aggregate principal amount of the Bonds at the time outstanding, the City shall for such purpose join with the Trustee in the execution, delivery and performance of all instruments and agreements necessary or proper to appoint, one or more persons approved by the Trustee either to act as co-trustee, or co-trustees, jointly with the Trustee of all or any part of the trust estate, or to act as separate trustee or separate trustees of all or any part of the trust estate, and to vest in such person or persons, in such capacity, such title to the trust estate or any part thereof, and such rights, powers, duties, trusts or obligations as the City and the Trustee may consider necessary or desirable, subject to the remaining provisions of this Section 10.08.

If the City shall not have joined in such appointment within 15 days after the receipt by it of a request so to do, or in case an event of default shall have occurred and be continuing, the Trustee alone shall have power to make such appointment.

The City shall execute, acknowledge and deliver all such instruments as may be required by any such co-trustee or separate trustee for more fully confirming such title, rights, powers, trusts, duties and obligations to such co-trustee or separate trustee.

Every co-trustee or separate trustee shall, to the extent permitted by law, but to such extent only, be appointed subject to the following terms, namely:

(a) The Bonds, shall be authenticated and delivered, and all rights, powers, trusts, duties and obligations by this Indenture conferred upon the Trustee in respect of the custody, control or management of monies, papers, securities and other personal property shall be exercised, solely by the Trustee.

(b) All rights, powers, trusts, duties and obligations conferred or imposed upon the trustees shall be conferred or imposed upon and exercised or performed by the Trustee, or by the Trustee and such co-trustee or co-trustees or separate trustee or separate trustees jointly, as shall be provided in the instrument appointing such co-trustee or co-trustees or separate trustee or separate trustees, except to the extent that, under the law of any jurisdiction in which any particular act or acts are to be performed, the Trustee shall be incompetent or unqualified to perform such act or acts, in which event such act or acts shall be performed by such co-trustee or co-trustees or separate trustee or separate trustees.

(c) Any request in writing by the Trustee to any co-trustee or separate trustee to take or to refrain from taking any action hereunder shall be sufficient warrant for the taking, or the refraining from taking, of such action by such co-trustee or separate trustee.

(d) Any co-trustee or separate trustee may delegate to the Trustee the exercise of any right, power, trust, duty or obligation, discretionary or otherwise.

(e) The Trustee at any time, by an instrument in writing, with the concurrence of the City evidenced by a certified ordinance of the governing body of the City, may accept the resignation of or remove any co-trustee or separate trustee appointed under this Section 10.08, and, in case an event of default shall have occurred and be continuing, the Trustee shall have power to accept the resignation of, or remove any such co-trustee or separate trustee without the concurrence of the City. Upon the request of the trustee, the City shall join with the Trustee in the execution, delivery and performance of all instruments and agreements necessary or proper to effectuate such resignation or removal. A successor to any co-trustee or separate trustee so resigned or removed may be appointed in the manner provided in this Section 10.08.

(f) No trustee hereunder shall be personally liable by reason of any act or omission of any other trustee hereunder.

(g) Any demand, request, direction, appointment, removal, notice, consent, waiver or other action in writing executed by the Bondholders and delivered to the Trustee shall be deemed to have been delivered to each such co-trustee or separate trustee.

(h) Any monies, papers, securities or other items of personal property received by any such co-trustee or separate trustee hereunder shall forthwith, so far as may be permitted by law, be turned over to the Trustee.

Upon the acceptance in writing of such appointment by any such co-trustee or separate trustee, it or he shall be vested with such title to the trust estate or any part thereof, and with such rights, powers, duties, trusts or obligations, as shall be specified in the instrument of appointment jointly with the Trustee (except insofar as local law makes it necessary for any such co-trustee or separate trustee to act alone) subject to all the terms of this Indenture. Every such acceptance shall be filed with the Trustee. Any co-trustee or separate trustee may, at any time by an instrument in writing, constitute the Trustee,

its or his attorney-in-fact and agent, with full power and authority to do all acts and things and to exercise all discretion on its or his behalf and in its or his name.

In case any co-trustee or separate trustee shall die, become incapable of acting, resign or be removed, the title to the trust estate, and all rights, powers, trusts, duties and obligations of said co-trustee or separate trustee shall, so far as permitted by law, vest in and be exercised by the Trustee unless and until a successor co-trustee or separate trustee shall be appointed in the manner herein provided.

ARTICLE XI

MISCELLANEOUS PROVISIONS

Section 11.01. All covenants, stipulations, promises, undertakings and agreements herein contained by or on behalf or for the benefit of the City shall bind and inure to the benefit of its successors and assigns, whether so expressed or not.

Section 11.02. This Indenture may be executed in several counterparts, and each executed copy shall constitute an original instrument but such counterparts shall together constitute but one and the same instrument.

Section 11.03. The entitlement or headings of the several articles of this Indenture shall not be construed to constitute any part thereof.

Section 11.04. Nothing in this Indenture, expressed or implied, is intended or shall be construed to confer upon, or give to any person, association or corporation, other than the parties hereto, the co-trustee, if any, and the Holders from time to time of the Bonds and coupons, and their successors and assigns, any security, rights, remedies or claims, legal or equitable, under or by reason hereof, or any covenant, condition or stipulation hereof; and this Indenture and all the covenants and agreements herein contained are and shall be held to be for the sole and exclusive benefit of the parties hereto, the co-trustee, if any, and the Holders from time to time of the Bonds and coupons and their successors and assigns.

Section 11.05. Any monies deposited with the Trustee by the City in accordance with the terms and covenants of this Indenture, in order to redeem or pay the Bonds in accordance with the provisions of this Indenture, and remaining unclaimed by the bearers or registered owners of the Bonds for six (6) years after the date fixed for redemption or of maturity, as the case may be,

shall, if the City is not at the time to the knowledge of the Trustee in default with respect to any of the terms and conditions of this Indenture, or in the Bonds or coupons contained, be repaid by the Trustee to the City upon its written request therefor; and thereafter the bearers or registered owners of the Bonds shall be entitled to look only to the City for payment thereof; provided, however, that the Trustee, before being required to make such repayment, shall, at the expense of the City, effect publication in an Authorized Newspaper of a notice to the effect that said monies have not been so applied and that after the date named in said notice any unclaimed balance of said monies then remaining shall be returned to the City. The City hereby covenants and agrees to indemnify and save the Trustee harmless from any and all loss, costs, liability and expense suffered or incurred by the Trustee by reason of having returned any such monies to the City as herein provided.

Section 11.06. The City, forthwith upon execution and delivery of this Indenture and thereafter from time to time, will cause this Indenture, and each supplement thereto, to be filed, registered and recorded and re-filed, re-registered and re-recorded in such manner and in such places as may be required by any applicable present or future law in order to publish notice of and fully protect the lien hereof upon, and the title of the Trustee to, the trust estate and in order to entitle the Bonds then outstanding to the benefits and security of this Indenture, and from time to time will perform or cause to be performed any other act as provided by law and will execute or cause to be executed any and all further instruments which may be necessary for such publication, protection and entitlement. The City will pay or cause to be paid all filing, registration and recording taxes and fees incident to such filing, re-filing, registration, re-registration, recording and re-recording and all expenses incidental to the preparation, execution and acknowledgment of this Indenture, any instrument of further assurance and any supplements to any of said instruments and all federal or state charges arising out of or in connection with the execution and delivery of this Indenture, the Bonds, any instrument of further assurance, and any supplements to any of said instruments.

Promptly after any filing, registration or recording or any re-filing, re-registration or re-recording of this Indenture or any filing, registration, recording, re-filing, re-registration or re-recording of any supplement to this Indenture, or any instrument of further assurance which is required pursuant to the preceding paragraph of this Section 11.06, the City will deliver to the Trustee an Opinion of Counsel to the effect that such filing, registration, recording, re-filing, re-registration or re-recording has been duly accomplished and setting forth the particulars thereof.

Section 12.02. With the consent (evidenced as provided in Article IX) of the Holders of not less than sixty-six and two-thirds percent ($66\frac{2}{3}\%$) in aggregate principal amount of the Bonds at the time outstanding, the City, when authorized by an ordinance of its governing body, and the Trustee may from time to time and at any time enter into an indenture or indentures supplemental hereto for the purpose of adding any provisions to or changing in any manner or eliminating any of the provisions of this Indenture or of any supplemental indenture; provided, however, that without the consent of all Bondholders affected by the supplemental indenture, no such supplemental indenture shall (1) deprive any Bondholder of the security afforded by this Indenture, or (2) create any lien upon the trust estate prior to or on a parity with the lien of this Indenture, or (3) reduce the aforesaid percentage of Holders of Bonds required to approve any such supplemental indenture. Any supplemental indenture resulting in any extension of the fixed maturity of the Bonds or a reduction in the rate of interest thereon or an extension in the time of payment of interest, or a reduction in the amount of the principal thereof, or a reduction in any premium payable on the redemption thereof, shall also require the written consent of the Purchaser under the Power Sales Agreement. Upon receipt by the Trustee of a Certified Ordinance authorizing the execution of any such supplemental indenture, and upon the filing with the Trustee of evidence of the consent of Bondholders, as aforesaid, the Trustee shall join with the City in the execution of such supplemental indenture unless such supplemental indenture affects the Trustee's own rights, duties or immunities under this Indenture or otherwise, in which case the Trustee may in its discretion, but shall not be obligated to, enter into such supplemental indenture.

It shall not be necessary for the consent of the Bondholders under this Section 12.02 to approve the particular form of any proposed supplemental indenture, but it shall be sufficient if such consent shall approve the substance thereof.

Section 12.03. Upon the execution of any supplemental indenture pursuant to the provisions of this Article XII, this Indenture shall be and be deemed to be modified and amended in accordance therewith and the respective rights, duties and obligations under this Indenture of the City, the Trustee and all Holders of Bonds outstanding thereunder shall thereafter be determined, exercised and enforced hereunder subject in all respects to such modification and amendments, and all the terms and conditions of any such supplemental indenture shall be and be deemed to be part of the terms and conditions of this Indenture for any and all purposes.

Section 12.04. Subject to the provisions of Section 10.01 the Trustee may rely on an Opinion of Counsel as conclusive

evidence that any supplemental indenture executed pursuant to the provisions of this Article XII complies with the requirements of this Article XII.

Section 12.05. Bonds authenticated and delivered after the execution of any supplemental indenture pursuant to the provisions of this Article XII may bear a notation, in form approved by the Trustee, as to any matter provided for in such supplemental indenture and if such supplemental indenture shall so provide, new Bonds, so modified as to conform, in the opinion of the Trustee, to any modification of this Indenture contained in any such supplemental indenture, may be prepared by the City, authenticated by the Trustee and delivered without cost to the Holders of the Bonds then outstanding, upon surrender for cancellation of such Bonds with all unmatured coupons and all matured coupons not fully paid, in equal aggregate principal amounts.

IN WITNESS WHEREOF, the City of Portland, Oregon has caused this Indenture to be signed in its behalf, in its corporate name, by its Mayor and its Auditor; and United States National Bank of Oregon, Portland, Oregon has caused this Indenture to be signed in its behalf, in its corporate name, by one of its Trust Officers, and its corporate seal to be hereunto affixed; and the said seal to be attested by one of its Corporate Trust Officers, all as of the day and year first above written.

CITY OF PORTLAND, OREGON

By _____
Mayor

ATTEST:

Auditor

UNITED STATES NATIONAL BANK OF OREGON,
Portland, Oregon, as Trustee

By _____
Trust Officer

ATTEST:

Corporate Trust Officer

(Corporate Seal)

STATE OF OREGON)
) ss.
 County of _____)

PERSONALLY APPEARED _____ who,
 being duly sworn, did say that he is the Mayor of the City of
 Portland, Oregon, a municipal corporation, and that said instrument
 was signed in behalf of said corporation by authority of its
 governing body; and he acknowledged said instrument to be his
 voluntary act and deed.

GIVEN before me and under my hand and notarial seal
 this _____ day of _____, 1979.

 Notary Public for Oregon
 My Commission Expires: _____

STATE OF OREGON)
) ss.
 County of _____)

PERSONALLY APPEARED _____ who,
 being duly sworn, did say that he is the Auditor of the City of
 Portland, Oregon, a municipal corporation, and that said instrument
 was signed in behalf of said corporation by authority of its
 governing body; and he acknowledged said instrument to be his
 voluntary act and deed.

GIVEN before me and under my hand and notarial seal
 this _____ day of _____, 1979.

 Notary Public for Oregon
 My Commission Expires: _____

STATE OF OREGON)
) ss.
 County of _____)

PERSONALLY APPEARED _____ who,
 being duly sworn, did say that he is a Trust Officer of United
 States National Bank of Oregon, Portland, Oregon, a national
 banking association, and that the seal affixed to the foregoing
 instrument is the corporate seal of said association and that
 said instrument was signed and sealed in behalf of said association
 by authority of its board of directors; and he acknowledged said
 instrument to be his voluntary act and deed.

GIVEN before me and under my hand and notarial seal
 this _____ day of _____, 1979.

 Notary Public for Oregon
 My Commission Expires: _____

STATE OF OREGON)
) ss.
 County of _____)

PERSONALLY APPEARED _____ who,
 being duly sworn, did say that he is a Corporate Trust Officer of
 United States National Bank of Oregon, Portland, Oregon, a
 national banking association, and that the seal affixed to the
 foregoing instrument is the corporate seal of said association
 and that said instrument was signed and sealed in behalf of said
 association by authority of its board of directors; and he acknowledged
 said instrument to be his voluntary act and deed.

GIVEN before me and under my hand and notarial seal
 this _____ day of _____, 1979.

 Notary Public for Oregon
 My Commission Expires: _____

PRELIMINARY OFFICIAL STATEMENT DATED APRIL 20, 1979

NEW ISSUE

\$38,000,000**City of Portland, Oregon****HYDROELECTRIC POWER REVENUE BONDS**

Dated June 1, 1979

Due October 1, as shown below

Principal and semi-annual interest (October 1 and April 1, first coupon October 1, 1979) payable at the office of United States National Bank of Oregon, Portland, Oregon, or at the offices of the fiscal agent for the State of Oregon, New York, New York at the option of the holder. The Bonds will be issued in the denomination of \$5,000 as coupon bonds or bonds registered as to both principal and interest. The United States National Bank of Oregon, Portland, Oregon is the Trustee.

The Bonds shall be subject to redemption on or after October 1, 1989, in whole, or in part in inverse order of maturities (by lot within a maturity), on any interest payment date, at prices ranging from 103% if redeemed on October 1, 1989 or April 1, 1990, reducing $\frac{1}{2}$ of 1% every year to 100% on October 1, 1995 and thereafter, plus accrued interest to the date of redemption. The Term Bonds are also redeemable at par, plus accrued interest to the date of redemption, from the amounts credited to the Bond Retirement Account with respect to sinking fund installments. The Bonds are also callable in the event of certain circumstances as more fully described herein.

Interest exempt in the opinion of Bond Counsel, from Federal Income and State of Oregon Personal Income Taxes under Existing Laws and Regulations.

The Bonds are secured by a pledge of the Gross Revenues received by the City under the Power Sales Agreement with the Portland General Electric Company providing for the sale of power from the Project, and by the Funds established under the Trust Indenture. The Trust Indenture provides that the Trustee shall receive all of the Gross Revenues and deposit therefrom, first, into the Debt Service Fund amounts sufficient to pay the interest and principal becoming due on the Bonds and, thereafter, amounts as required in the Debt Service Reserve and Renewal and Replacement Funds. The City may issue bonds on a parity with the Bonds under certain conditions as more fully described herein.

AMOUNTS, MATURITIES, RATES AND YIELDS OR PRICES

Amount	Due	Rate	Yield or Price	Amount	Due	Rate	Yield or Price
\$ 300,000	1983	%	%	\$ 650,000	1994	%	%
325,000	1984			675,000	1995		
350,000	1985			725,000	1996		
375,000	1986			775,000	1997		
400,000	1987			825,000	1998		
425,000	1988			900,000	1999		
475,000	1989			950,000	2000		
500,000	1990			1,000,000	2001		
525,000	1991			1,075,000	2002		
575,000	1992			1,150,000	2003		
600,000	1993			1,225,000	2004		

\$23,200,000 . . . % Term Bonds Due October 1, 2016
(accrued interest to be added)

The Bonds are offered when, as and if issued and received by us and subject to the approval of legality by Ragen, Roberts & O'Scannlain, Portland, Oregon, and Rutan & Tucker, San Francisco, California, Bond Counsel. It is expected that the Bonds in definitive form will be ready for delivery on or about June 6, 1979.

May , 1979

This is a Proposed Official Statement, subject to correction and change, and is not yet finally adopted. The City of Portland has authorized this Proposed Official Statement and upon the sale of the Bonds, it will complete, adopt, and deliver a final Official Statement substantially in this form.

CITY OF PORTLAND

CITY COUNCIL

Neil Goldschmidt
Mayor

Commissioner of Finance and Administration

Francis J. Ivancie Commissioner of Public Utilities
Charles R. Jordan Commissioner of Public Safety
Connie McCready Commissioner of Public Works
Mildred A. Schwab Commissioner of Public Affairs

George Yerkovich City Auditor

R. M. Lappi, Jr. Treasurer
Christopher P. Thomas City Attorney

BUREAU OF WATER WORKS

Robert C. Hyle Manager
Carl Goebel Assistant Manager
James L. Doane Project Manager

SPECIAL SERVICES

CH₂M-Hill, *Portland, Oregon*
Consulting Engineer

Ragen, Roberts and O'Scannlain, *Portland, Oregon*
Rutan & Tucker, *San Francisco, California*
Bond Counsel

Smith Barney, Harris Upham & Co., Incorporated
San Francisco, California
Financial Advisor

No dealer, broker, salesman or other person has been authorized by the City or the underwriters to give any information or to make any representations, other than those contained in this Official Statement, and if given or made, such other information or representations must not be relied upon as having been authorized by any of the foregoing. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Bonds by any person, in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. The information set forth herein has been obtained from the City and other sources which are believed to be reliable but it is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation by, the underwriters. The information and expressions of opinion herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the City since the date hereof.

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SUMMARY STATEMENT

(Subject in all respects to more complete information contained in this Official Statement)

Purpose

The Bonds are being issued to finance the construction of a hydroelectric turbine and related improvements and transmission and supervisory facilities at each of two existing dams at Portland's water supply works on the Bull Run River. Bond proceeds will also be used to fund, in whole or in part, a Debt Service Reserve Fund and a Renewal and Replacement Fund and to capitalize interest on the Bonds to October 1, 1982 and to pay the costs of financing, including the Bond discount.

Security

The Bonds are secured by and payable from the Gross Revenues to be received by the City from the Portland General Electric Company pursuant to a Power Sales Agreement entered into between the City and Portland General Electric. The Power Sales Agreement shall be in full force and effect until August 31, 2017 or until the Bonds are paid or provision is made for their retirement, whichever is later. The Bonds are additionally secured by a Debt Service Reserve Fund which shall be maintained at maximum annual debt service and is to be funded from Bond proceeds. The Bonds do not constitute an indebtedness of the City of Portland within the meaning of any constitutional, statutory or City Charter provisions regarding the incurring of indebtedness by the City.

City of Portland

The City of Portland is located in northwestern Oregon at the confluence of the Columbia and Willamette Rivers, approximately 65 miles from the Pacific Ocean. Portland, with a population of approximately 385,000, is the largest City in Oregon and the second largest in the Pacific Northwest. Its metropolitan area contains a population of approximately 1,130,000 which represents approximately 40% of the population of Oregon.

The Bull Run Facilities

Located approximately 35 miles from Portland, the City's water supply works on the Bull Run River is the sole source of water for the City and a substantial part of the Portland metropolitan area. This water supply source consists of reservoirs located behind two existing dams. Dam No. 1 is a concrete dam completed in 1929 with a water depth of approximately 170 feet and Dam No. 2 is an earthfill dam completed in 1962 with a water depth of approximately 110 feet. Both dams were originally designed and constructed with provisions for the future addition of hydroelectric generation facilities.

The Portland Hydroelectric Project

The Portland Hydroelectric Project consists of the design and construction of two powerplants, one at Dam No. 1 and one at Dam No. 2, as well as transmission lines, plant telemetry system, access roads and water quality intake towers. The combined capacity of both powerplants is 36 megawatts and the resultant net annual energy production is expected to be 108.7 million kilowatt-hours per year. These facilities are scheduled for completion and initial commercial operation by February 1982. The Portland Hydroelectric Project will be constructed by the City and will be operated and maintained by Portland General Electric Company.

Disposition of Project Output

The City of Portland does not operate a municipal electric distribution system and is served by the Portland General Electric Company and Pacific Power and Light Company, investor owned utilities. The City and Portland General Electric have entered into a Power Sales Agreement which provides for the delivery of the power generated, if any, to Portland General Electric by the City, and for the payment by Portland General Electric to the City regardless of the amount of power or energy delivered.

Portland General Electric

The Portland General Electric Company is an investor owned electric utility engaged in the generation, purchase, transmission, distribution and sale of electricity in the State of Oregon. Its service area

is 3,350 square miles, including 54 incorporated cities of which Portland (also partially served by Pacific Power and Light Company) and Salem are the largest. The company estimates that the population of its service area at the end of 1978 was approximately 1,000,000. The Company serves approximately 40% of the electric customers in Oregon. The energy expected to be provided by the Portland Hydroelectric Project represents less than 1% of Portland General Electric energy sales. The Company expects that with its current nuclear facilities operating, its annual energy requirements will be provided as follows: $\frac{1}{2}$ from hydro, $\frac{1}{3}$ from nuclear, and $\frac{1}{6}$ from purchase and fossil fuel.

Cost of Power

The Consulting Engineer estimates that the Project energy will cost approximately 39 mills per kwh over the first 5 years of operation. Such costs are expected to remain relatively constant and will become more attractive, on a relative basis, as alternate sources of power continue to increase in cost.

The Power Sales Agreement

The Power Sales Agreement will run until August 31, 2017 or until the Bonds are paid or provision is made for their payment, whichever is later, and payments under the agreement are to commence no later than October 1, 1982. It provides that all power and energy generated, if any, will be delivered to Portland General Electric by the City, and that Portland General Electric will pay the Annual Power Costs (as defined) including debt service on the Bonds regardless of the amount of power or energy delivered, if any. The Power Sales Agreement also provides, among other things, that the City and Portland General Electric will share in the future benefits of the Portland Hydroelectric Project power as it compares to the cost of energy from the most recently constructed 500 MW or greater thermal generating facility on which PGE relies to meet its base load requirements.

Additional Bonds

Additional bonds on a parity with the Bonds may be issued without an earnings test, a) to complete the Project, b) to refund, prepay or advance refund any series of outstanding Bonds, or c) to finance Additional Facilities (as defined). For other than these purposes, no bonds payable from Portland Hydroelectric Project payments to the City may be issued.

Coverage of Debt Service

The payments to be made by Portland General Electric Company pursuant to the Power Sales Agreement result in estimated coverage of debt service (at an assumed rate of $6\frac{3}{4}\%$) of from 1.33 times in 1983 increasing to 1.69 times in 1989. Following 1989 the estimated coverage of debt service increases each year as the payments from Portland General Electric are estimated to increase each year by at least \$133,000.

Rate Covenant

Under certain circumstances the City may elect to terminate the Power Sales Agreement. If it does, the City covenants that it will use its best efforts to find one or more other purchasers for the power generated by the Project and to assure that the sales price for such power shall be not less in any given year than 125% of the total debt service for the immediately following year plus all costs of operation and maintenance and any other expenses related to the operation of the Project and the servicing of the Bonds.

In addition to financing the Project, Bond proceeds will be used to provide funds which, together with interest earnings thereon, will be sufficient to: a) capitalize interest on the Bonds to October 1, 1982; b) provide a Debt Service Reserve Fund equal to maximum annual debt service requirements; c) provide a Renewal and Replacement Fund deposit of \$321,000; d) pay the estimated costs of financing; and e) provide for the estimated bond discount.

See "Application of Bond Proceeds" on page 15 and "The Portland Hydroelectric Project" on page 9.

SECURITY FOR THE BONDS

Under the Trust Indenture, the Bonds are payable solely from the special funds established by said Indenture, maintained by the Trustee and designated as the Portland Hydroelectric Project Debt Service Fund. The Indenture provides that the Trustee shall receive all of the Gross Revenues being paid by Portland General Electric Company (PGE) to the City pursuant to the Power Sales Agreement. The Trustee shall deposit therefrom monthly, first into the Revenue Fund and then to the Debt Service Fund amounts sufficient to pay the principal of and interest on the Bonds on the next succeeding interest payment date, and thereafter amounts as required to other funds and accounts as specified in the Indenture.

Payments to be made by PGE to the City shall be payable monthly and shall commence on the earlier of October 1, 1982 or the date the latter of the Project generating units to be completed is installed and, in the written opinion of the Consulting Engineer effective upon delivery of a copy of the opinion to the City and PGE, is capable of continuous operation (the "Completion of Construction"). If October 1, 1982 is the earlier date, then the monthly payments by PGE to the City until the Completion of Construction shall be in an amount equal to one-sixth ($\frac{1}{6}$) of the semi-annual interest and one-twelfth ($\frac{1}{12}$) of the annual principal payment required on the Bonds.

Following Completion of Construction, PGE agrees to pay the City, regardless of the amount of power or energy delivered, in monthly installments for each year, the sum of:

- (i) the Annual Power Costs,
- (ii) the Power Production Payments, and
- (iii) the Share the Savings Element.

These three items are referred to collectively as the "Annual Purchase Price".

Annual Power Costs—The Annual Power Costs is the sum of all of the City's costs resulting from the ownership of, and renewals and replacements to, the Project, and specifically include but are not limited to:

- (i) The amount required by the Trust Indenture to be set aside by the City for the payment of Debt Service on the Bonds, and
- (ii) Any amount required by the Trust Indenture to maintain the Debt Service Reserve Fund at an amount equal to the maximum annual debt service on the Bonds during any single future year in which the Bonds are outstanding (the "Debt Service Reserve Fund Requirement"), and
- (iii) An amount equal to 1.25 percent of the sum of all of the City's costs of acquisition, construction and financing of the Project (the "Cost of Acquisition and Construction") less: the Debt Service Reserve Fund deposits funded from Bond proceeds; the amount funded from Bond proceeds to capitalize interest on the Bonds to October 1, 1982; and the amount funded from Bond proceeds for an initial deposit to the Renewal and Replacement Fund. Such payment of 1.25% of the Cost of Acquisition and Construction less the amounts discussed in the preceding sentence shall be adjusted annually by the ratio which the then current calendar year's Construction Cost Index bears to the Construction Cost Index for the year in which Completion of Construction occurred, which amount, as so adjusted, shall be placed in the Renewal and Replacement Fund, provided that in no event shall the amount in the Renewal and Replacement Fund exceed twelve percent (12%) of the Cost of Acquisition and Construction, less those portions described above, as adjusted for the Construction Cost Index ratio for the then current year and the year Completion of Construction occurred, and

(iv) An amount equal to the City's reasonable costs of administration in connection with the Project which costs may include, among others, fees payable to the Consulting Engineer for services performed pursuant to the Power Sales Agreement, and

(v) An amount equal to the City Bureau of Water Works' reasonable costs for water quality testing and control in connection with the Project, and

(vi) An amount equal to the sum of all permit or license fees including costs or expenses to carry out obligations imposed by a government agency as a condition of such permit or license and all taxes which the City may be required to pay in connection with the Project, and

(vii) An amount equal to the sum of insurance premiums payable for insuring against the risks specified in the Power Sales Agreement.

Power Production Payments—The Power Production Payments are an amount equal to the product of the actual annual Project output in kilowatt-hours of energy divided by 108,700,000 kilowatt-hours, multiplied by the greater of \$305,000 or ten percent (10%) of the annual amount required to be set aside by the City for the payment of debt service on the Bonds.

Share the Savings Element—The Share the Savings Element is an amount equal to fifty percent (50%) of the difference by which the Annual Power Cost (increased by costs of operation and maintenance) for such Contract Year is less than the normalized average cost per kilowatt-hour for such Contract Year of the most recently completed generating unit having a nameplate rating of 500,000 kilowatt capacity or greater, whether fueled by fossil fuels or by nuclear energy, upon any portion of the output of which unit PGE relies to meet its base load, which shall have been put into commercial operation prior to such Contract Year, times the number of kilowatt-hours actually delivered to PGE by the City during such Contract Year.

Should in any year the Share the Savings Element be a negative number, it shall be an offset for any future Contract Year Share the Savings Element.

The Bonds do not constitute an indebtedness of the City within the meaning of any constitutional, statutory or City Charter provisions regarding the incurring of indebtedness by the City and neither the Trustee nor any bond-holder shall have the right to require the imposition of any tax, charge, or fee for the payment of the Bonds other than the payment set forth in the Power Sales Agreement.

Covenants of Portland General Electric

The Power Sales Agreement contains the definitive agreements between PGE and the City of Portland relative to the Project. See Appendix D.

In addition to the payments enumerated above under "Security for the Bonds" which PGE agrees to make, PGE agrees as follows:

(i) To purchase the entire output of the Project.

(ii) To design and operate its system so that electric energy received from the Project will be confined to providing electric service to the general populace within the two contiguous counties of Clackamas and Multnomah, Oregon during the term of the Power Sales Agreement.

(iii) To defend and hold the City harmless from all claims (including but not limited to any additional interest costs required under the terms of the Trust Indenture) against the City resulting from a determination that interest on the Bonds was not, is not or will not be, exempt from Federal income tax and from Oregon personal income tax due to or caused by PGE's act or omission.

(iv) To operate and maintain the Project from the Initial Date of Delivery until the termination of the Power Sales Agreement in accordance with the highest current standards of the electric power industry and to perform all operational and maintenance procedures specified in the Operations and Maintenance Manuals furnished by the City and approved by PGE.

(v) To pay all costs of operation and maintenance.

(vi) To maintain liability insurance covering the risks for which PGE is responsible in the principal amount of not less than \$30,000,000, for any one occurrence, less any applicable reason-

(iv) An amount equal to the City's reasonable costs of administration in connection with the Project which costs may include, among others, fees payable to the Consulting Engineer for services performed pursuant to the Power Sales Agreement, and

(v) An amount equal to the City Bureau of Water Works' reasonable costs for water quality testing and control in connection with the Project, and

(vi) An amount equal to the sum of all permit or license fees including costs or expenses to carry out obligations imposed by a government agency as a condition of such permit or license and all taxes which the City may be required to pay in connection with the Project, and

(vii) An amount equal to the sum of insurance premiums payable for insuring against the risks specified in the Power Sales Agreement.

Power-Production Payments—The Power Production Payments are an amount equal to the product of the actual annual Project output in kilowatt-hours of energy divided by 108,700,000 kilowatt-hours, multiplied by the greater of \$305,000 or ten percent (10%) of the annual amount required to be set aside by the City for the payment of debt service on the Bonds.

Share the Savings Element—The Share the Savings Element is an amount equal to fifty percent (50%) of the difference by which the Annual Power Cost (increased by costs of operation and maintenance) for such Contract Year is less than the normalized average cost per kilowatt-hour for such Contract Year of the most recently completed generating unit having a nameplate rating of 500,000 kilowatt capacity or greater, whether fueled by fossil fuels or by nuclear energy, upon any portion of the output of which unit PGE relies to meet its base load, which shall have been put into commercial operation prior to such Contract Year, times the number of kilowatt-hours actually delivered to PGE by the City during such Contract Year.

Should in any year the Share the Savings Element be a negative number, it shall be an offset for any future Contract Year Share the Savings Element.

The Bonds do not constitute an indebtedness of the City within the meaning of any constitutional, statutory or City Charter provisions regarding the incurring of indebtedness by the City and neither the Trustee nor any bond-holder shall have the right to require the imposition of any tax, charge, or fee for the payment of the Bonds other than the payment set forth in the Power Sales Agreement.

Covenants of Portland General Electric

The Power Sales Agreement contains the definitive agreements between PGE and the City of Portland relative to the Project. See Appendix D.

In addition to the payments enumerated above under "Security for the Bonds" which PGE agrees to make, PGE agrees as follows:

- (i) To purchase the entire output of the Project.
- (ii) To design and operate its system so that electric energy received from the Project will be confined to providing electric service to the general populace within the two contiguous counties of Clackamas and Multnomah, Oregon during the term of the Power Sales Agreement.
- (iii) To defend and hold the City harmless from all claims (including but not limited to any additional interest costs required under the terms of the Trust Indenture) against the City resulting from a determination that interest on the Bonds was not, is not or will not be, exempt from Federal income tax and from Oregon personal income tax due to or caused by PGE's act or omission.
- (iv) To operate and maintain the Project from the Initial Date of Delivery until the termination of the Power Sales Agreement in accordance with the highest current standards of the electric power industry and to perform all operational and maintenance procedures specified in the Operations and Maintenance Manuals furnished by the City and approved by PGE.
- (v) To pay all costs of operation and maintenance.
- (vi) To maintain liability insurance covering the risks for which PGE is responsible in the principal amount of not less than \$30,000,000, for any one occurrence, less any applicable reason-

able deductible, which principal amount shall be subject to reasonable increases to reflect social and economic changes.

Covenants of The City of Portland

Under the Power Sales Agreement (see Appendix D) the City agrees with PGE, as follows:

(i) To proceed diligently with the financing and construction of the Project and, subject to uncontrollable forces, it plans but is not obligated, to complete the Project by January 1, 1982.

(ii) To sell to PGE the entire output of the Project.

(iii) To obtain and maintain adequate insurance with responsible insurers with policies payable to the City and for the benefit of the City and PGE as their respective interests may appear, against physical loss or damage to the Project on replacement cost basis and other risk mutually agreed upon by the City and PGE. The existing dams and Water Bureau facilities will not be insured, consistent with the past practices of the city.

(iv) In the event PGE shall default in its obligation to pay the Annual Purchase Price, the City shall have the right to offset any amount owed PGE by the City as a customer of PGE for electric power to the extent of such default. The City is a customer of PGE for electric power for street lighting and energy used in the City's municipal buildings and facilities.

Under the Trust Indenture (see "Summary of Certain Provisions of the Trust Indenture") the City has also covenanted that in the event PGE defaults in its obligations under the Power Sales Agreement and the City elects to terminate the Power Sales Agreement, the City will use its best efforts to find one or more other purchasers for the power generated by the Project. The City further covenants that it will use its best efforts to assure that the sales price for such power to any other purchaser or purchasers shall be not less in any given year than 125% of the total debt service on the Bonds then outstanding for the immediately following year, plus all costs of operation and maintenance and any other expenses related to the operation of the Project and the servicing of the Bonds.

PORTLAND HYDROELECTRIC PROJECT

Background

The City of Portland water supply sources on the Bull Run River were initially developed 85 years ago. They are the sole source of water for the City and for a substantial part of the Portland metropolitan area. The existing water supply sources include impoundments located behind Dam No. 1 and Dam No. 2 within the Bull Run Reserve. Each dam was originally designed and constructed with provisions for the future addition of hydroelectric power generation facilities.

The Project consists of the design and construction of one powerhouse each at Dam No. 1 and Dam No. 2. In addition, a transmission line, plant telemetry system, access road, and water quality intake structures will be designed and constructed. The Project will be constructed and owned by the City but all costs of operation and maintenance of the Project will be paid directly by Portland General Electric Company.

Power Generation

The Project includes two hydroelectric powerhouses, one at Dam No. 1 and one at Dam No. 2. Total combined capacity of both powerhouses is 36 megawatts. The gross annual energy production from both powerhouses is estimated to be 111.2 million kilowatt-hours per year. Considering transmission losses and internal power consumption, the net annual energy production is expected to be 108.7 million kilowatt-hours per year.

Powerhouse No. 1 will house a vertical Francis turbine having a rated output of 32,700 horsepower at 165 feet net head and a flow of about 1,960 cfs. The turbine will drive a synchronous generator at 212 rpm, having an output of 25,000 kVA at 13,800 volts and .95 power factor.

The turbine will be capable of operation at net heads ranging from 175 feet to about 100 feet and will be operated to maintain reservoir level variation within specified limits. The gross annual average power production from this plant will be about 69.3 million kilowatt-hours per year, and the net power delivered to PGE is estimated to be 67.7 million kilowatt-hours after transmission losses and internal plant uses.

able deductible, which principal amount shall be subject to reasonable increases to reflect social and economic changes.

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(iv) In the event PGE shall default in its obligation to pay the Annual Purchase Price, the City shall have the right to offset any amount owed PGE by the City as a customer of PGE for electric power to the extent of such default. The City is a customer of PGE for electric power for street lighting and energy used in the City's municipal buildings and facilities.

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The Project consists of the design and construction of one powerhouse each at Dam No. 1 and Dam No. 2. In addition, a transmission line, plant telemetry system, access road, and water quality intake structures will be designed and constructed. The Project will be constructed and owned by the City but all costs of operation and maintenance of the Project will be paid directly by Portland General Electric Company.

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The Project includes two hydroelectric powerhouses, one at Dam No. 1 and one at Dam No. 2. Total combined capacity of both powerhouses is 36 megawatts. The gross annual energy production from both powerhouses is estimated to be 111.2 million kilowatt-hours per year. Considering transmission losses and internal power consumption, the net annual energy production is expected to be 108.7 million kilowatt-hours per year.

Powerhouse No. 1 will house a vertical Francis turbine having a rated output of 32,700 horsepower at 165 feet net head and a flow of about 1,960 cfs. The turbine will drive a synchronous generator at 212 rpm, having an output of 25,000 kVA at 13,800 volts and .95 power factor.

The turbine will be capable of operation at net heads ranging from 175 feet to about 100 feet and will be operated to maintain reservoir level variation within specified limits. The gross annual average power production from this plant will be about 69.3 million kilowatt-hours per year, and the net power delivered to PGE is estimated to be 67.7 million kilowatt-hours after transmission losses and internal plant uses.

Powerhouse No. 2 will have a vertical Kaplan turbine having a rated output of 16,300 horsepower at 100 feet net head and a flow of about 1,630 cfs. The turbine will drive a synchronous generator at 257 rpm, having an output of 12,500 kVA at 13,800 volts and .95 power factor.

The turbine will be capable of operation at net heads ranging from 110 feet to less than 70 feet and will be operated to maintain river and reservoir level variation within acceptable limits. The gross annual average power production from this plant will be about 41.9 million kilowatt-hours per year, and the net power delivered to PGE is estimated to be 41 million kilowatt-hours per year after transmission losses and internal power use.

Disposition of Power Output

The power generated by the Project will be transmitted to the PGE Bull Run substation and from there to the PGE Dunn's Corner switch station that feeds into the Portland metropolitan transmission system. All of the power generated by the Project will be used in the immediate two-county area. PGE will install automatic relaying systems that will prevent the exportation of power outside the two-county area.

Water Supply Considerations

The Bull Run Reserve is the only source of water for the City. The Federal Energy Regulatory Commission (FERC) license, State of Oregon permits, and Power Sales Agreement incorporate language to insure that the quality and quantity of water entering the City are unaffected by the project. The City has provided for the construction of multiple-level intake structures at Dam No. 1 and for limitations in the operation of the Project so that water quality and quantity in the water supply reservoirs is unaffected. Two separate water quality studies have been commissioned by the City using the latest techniques, including computer modeling. The studies have been accepted by the Portland City Council, Bull Run Advisory Committee, State of Oregon Water Policy Review Board, and Department of Environmental Quality. These studies have shown that no change in water quality is expected as a result of the Project.

Transmission Facilities

Power generated by the Project will be transmitted approximately 10 miles on a 57-kV woodpole-supported transmission line to the substation at the PGE Bull Run power plant. A 57-kV bay exists for terminating the transmission line at the substation. Two existing 57-kV transmission lines intertie the Bull Run substation to the PGE Dunn's Corner station, which connects to the main transmission system that serves the Portland metropolitan area.

Operations Facilities

Facilities to be constructed at Dam No. 1 will include multiple-level intake towers with trash racks. The existing 8-foot diameter penstocks will be extended and combined into one 11-foot diameter penstock, and the existing penstock valves will be fitted with electric operators. The powerhouse will be indoor-type reinforced concrete with a steel superstructure and will include a bridge crane, tailrace gates and gate hoist, and the other usual powerhouse facilities. Auxiliary systems for cooling water, dewatering, drainage, oil, air, and CO₂ will be included in the powerhouse. The substation will include main transformer, breakers, takeoff structure, and auxiliaries.

Facilities to be constructed at Dam No. 2 include a 10½-foot diameter penstock extension with hydraulically operated butterfly guard valve. The powerhouse will be similar to Powerhouse No. 1, described previously, and will include the same auxiliary equipment and systems.

Both powerhouses will normally be operated by supervisory control from PGE's existing Bull Run power plant, but can be locally controlled if required.

Construction Schedule

The schedule shown on Figure 3-1 of the Consulting Engineers Report illustrates the major activities and milestones on the Project. The primary activities shown are: engineering design; licensing; bond sale; right of way clearing; and construction of the access road, transmission line, powerhouse, and water quality tower. The Project is scheduled for completion and initial commercial operation

by February 1982. The construction schedule has been reviewed by the construction firm of Peter Kiewit Sons' who have indicated that it is reasonable except for unforeseen or uncontrollable delays.

Project licensing, engineering design, and equipment procurement have been underway since November 1976. Table 1 summarizes the status of Key Project activities and milestones.

Table 1
PORTLAND HYDROELECTRIC PROJECT
SUMMARY SCHEDULE
Key Activities and Milestones

<u>Scheduled Item</u>	<u>Date</u>	<u>Status</u>
1. FERC License	3/22/79	License approved
2. Complete Bond Sale	6/ 6/79	In progress
3. Complete Engineering Design	11/15/79	In progress
4. Access Road & Cofferdam		
Issue for Bids	5/16/79	Bid documents in preparation
Complete Construction	9/30/79	
5. Transmission Line		
Issue for Bids	4/15/79	Bid documents in final stages of preparation
Complete Construction	12/ 1/79	
6. Award Turbine Generator Contract	4/ 4/79	Contract awarded
7. Powerhouses Nos. 1 & 2		
Issue for Bids	1/ 1/80	Bid documents in preparation
Testing and Startup	12/ 1/81	
Commercial Operation	1/15/82	

Environmental Factors

The Project is expected to have no significant adverse impacts on the environment. FERC has stated in the Project license articles that:

"Based upon the record, including agency and intervenor comments and our staff's independent analysis, we find that issuance of a license for this project, as conditioned, is not a major federal action significantly affecting the quality of the human environment."

This conclusion was based on the Commission's review of an exhaustive analysis of environmental conditions and potential impacts of the Project. This analysis is contained in Exhibit W of the City of Portland's license application for the Project.

The Project complies with applicable federal and state environmental protection laws.

Permits and Licenses

Federal and state environmental protection laws and regulations apply to the Project and require that permits be obtained from state agencies.

The most important license required for this Project is the Hydroelectric Generation License that was issued to the City on March 22, 1979, by FERC. All other remaining permits are expected to be obtained during the Project design phase. Because of the stringent review procedures required by federal and state agencies prior to granting the Hydroelectric Generating License, it is anticipated that all remaining Project permits will be granted as applications are submitted and processed.

In order to construct and operate the Project, the City must obtain a Special Use Permit from the United States Forest Service. On January 24, 1979, the Regional Forester for the Forest Service approved a Bull Run Watershed Land Management Plan which authorized, among other things, the Project. An individual filed with the Chief of the Forest Service an appeal of the Regional Forester's approval of the Land Management Plan and requested a stay of implementation of the Plan. The Chief denied the stay. In April 1979 the Forest Service issued the Special Use Permit. Issuance of the Special Use Permit may be subject to revocation depending on the action taken by the Chief of the

Table 2

**PORTLAND HYDROELECTRIC PROJECT
PROJECT COST SUMMARY**

January 1979

<u>Project Activity</u>	<u>Total Project Costs (1)</u>
Engineering and Construction Management Services ...	\$ 3,556,000
Equipment Procurement	
a. Turbines and Generators	5,435,000
b. Turbine Guard Valve	604,000
c. Bridge Cranes	600,000
Construction	
a. Transmission Line	1,000,000
b. Access Road	590,000
c. Powerhouse No. 1	5,337,000
d. Powerhouse No. 2	4,198,000
e. Water Quality Intake Structures	2,626,000
Subtotal	<u>\$23,946,000</u>
Contingency (15% of Subtotal)	3,450,000 (2)
Total Project Costs (3)	\$27,396,000

- (1) Costs shown are gross nondiscontinued cash flows and reflect escalation of estimated equipment and construction costs at 11 percent per annum, compounded annually, based on current Project schedule.
- (2) Contingency not applicable to \$943,000 total expenditures through December 31, 1978.
- (3) Additional Project costs such as City's costs, interest during construction, the Debt Service Reserve Fund deposit, accrued interest, financing expenses, Renewal and Replacement Fund deposit, and Bond discount are shown under Application of Bond Proceeds.

FUTURE MARKETABILITY OF POWER PRODUCED

In the opinion of the Consulting Engineer, the power produced by the Project will be highly marketable due to projected future power shortages in the Pacific Northwest. For many years, utilities and industries in the Northwest have purchased large amounts of peaking and secondary energy from sources inside and outside the region. Marketing channels are well established for blocks of power such as that to be produced by the Project.

The West Group is an association of sixteen public, private, and federal power generating entities serving the Pacific Northwest. The West Group load area includes all of the Pacific Northwest except for those areas served by Idaho Power Company, Montana Power Company, and Utah Power Company. The West Group annually prepares 20-year forecasts of power resources and load for its members' service area.

Forecasts of power resources and loads indicate deficits of average energy for the West Group Area of the Northwest Power Pool every year from now to 1997-98. Small peaking surpluses are forecast until 1990-91, after which deficits will be substantial. Table 3 summarizes the 1978 official forecast by the Pacific Northwest Utilities Coordinating Committee of the West Group. It should be noted that other forecasts of power resources and load predict surpluses and deficits that vary from the West Group.

In the opinion of the Consulting Engineer, the West Group forecast is believed to substantially overstate regional power resources. Several recent developments will result in lower resource estimates in future West Group Area forecasts. First, delays in new plant construction have been lengthy, especially for the nuclear plants being built by the Washington Public Power Supply System, the Portland General Electric Company, and the Puget Sound Power and Light Company. Controversy over environmental

issues raises doubts that some plants will ever be built. Second, the Bonneville Power Administration has reported that federal hydrosystem peaking capability will be derated in the next West Group Area forecast because regulated streamflows are inadequate to provide continuous peaking for the region's 10-hour peakloads. Restrictions on reservoir and tailwater level fluctuations within the West Group Area are also expected to become more stringent, further reducing rated peaking capability.

The recent extremely cold weather in the Northwest highlights the need for additional generation capacity. The region's peakload was 1.1 percent above forecast for December 1978 and 6.5 percent above forecast for November. Individual utilities reported peaks up to 15 percent above forecast for December and 20.8 percent for November. Record loads were experienced again in January 1979. Large blocks of power were imported to the region, and several inefficient generation plants were run within the region to meet peakloads. In addition, BPA spilled water from the Grand Coulee and Dworshak reservoirs in order to increase peaking capacity in downstream plants.

In summary, the Consulting Engineers are of the opinion that new energy sources are needed to meet the growing electric energy loads in the Pacific Northwest. Forecasts indicate power shortages for at least the rest of this century.

Table 3
WEST GROUP AREA, NORTHWEST POWER POOL
PEAK AND AVERAGE POWER SURPLUSES AND DEFICITS

<u>Water Year</u>	<u>Peak Demand—MW</u>	<u>Average Energy—MW</u>
1979-80	3,410	(1,598)
1980-81	2,395	(2,139)
1981-82	2,406	(2,198)
1982-83	1,278	(2,275)
1983-84	1,957	(2,373)
1984-85	2,654	(1,897)
1985-86	3,306	(779)
1986-87	3,145	(450)
1987-88	3,461	(598)
1988-89	1,792	(1,292)
1989-90	987	(1,678)
1990-91	(1,001)	(2,578)
1991-92	(2,962)	(3,621)
1992-93	(5,136)	(4,789)
1993-94	(7,399)	(5,941)
1994-95	(9,760)	(7,238)
1995-96	(12,260)	(8,494)
1996-97	(14,798)	(9,833)
1997-98	(17,334)	(11,138)

Source: Data from West Group Area, Northwest Power Pool, 1978 report.

Note: Figures in parentheses indicate deficits.

APPLICATION OF BOND PROCEEDS

The City proposes to apply the proceeds of the Bonds approximately as follows:

CITY OF PORTLAND**Portland Hydroelectric Project****Estimated Application of Bond Proceeds**

Project Construction Costs(1)	\$27,396,000	
City Costs(2)	2,231,266	
Gross Project Requirements	29,627,266	
Less Interest Earnings (at 7½%)	2,508,669	
Net Project Requirements		\$27,118,597
Gross Capitalized Interest to October 1, 1982(3) ..	8,550,000	
Less Interest Earnings (at 7½%)	1,117,534	
Net Capitalized Interest		7,432,466
Gross Debt Service Reserve Fund Deposit(3)	2,893,188	
Less Interest Earnings (at 8%)	675,251	
Net Debt Service Reserve Fund Deposit		2,217,937
Estimated Financing Expenses		150,000
Deposit to Renewal and Replacement Fund		321,000
Estimated Bond Discount (2%)		760,000
Principal Amount of Bonds		<u>\$38,000,000</u>

(1) From letter report of Consulting Engineer.

(2) Includes City's cost of administration, planning and preparation of various licenses.

(3) At assumed interest rate of 6¾%.

ESTIMATED DEBT SERVICE REQUIREMENTS

The following tabulation shows the scheduled debt service requirements on the Bonds.

<u>Year Ending September 30</u>	<u>Serial Bond Maturities</u>	<u>Sinking Fund Installments</u>	<u>Interest (1)</u>	<u>Total Debt Service</u>
1979	—	—	—(2)	—
1980	—	—	—(2)	—
1981	—	—	—(2)	—
1982	—	—	—(2)	—
1983\$ 300,000		—	\$2,565,000	\$2,865,000
1984 325,000		—	2,544,750	2,869,750
1985 350,000		—	2,522,813	2,872,813
1986 375,000		—	2,499,188	2,874,188
1987 400,000		—	2,473,875	2,873,875
1988 425,000		—	2,446,875	2,871,875
1989 475,000		—	2,418,188	2,893,188
1990 500,000		—	2,386,125	2,886,125
1991 525,000		—	2,352,375	2,877,375
1992 575,000		—	2,316,938	2,891,938
1993 600,000		—	2,278,125	2,878,125
1994 650,000		—	2,237,625	2,887,625
1995 675,000		—	2,193,750	2,868,750
1996 725,000		—	2,148,188	2,873,188
1997 775,000		—	2,099,250	2,874,250
1998 825,000		—	2,046,938	2,871,938
1999 900,000		—	1,911,250	2,891,250
2000 950,000		—	1,930,500	2,880,500
2001 1,000,000		—	1,866,375	2,866,375
2002 1,075,000		—	1,798,875	2,873,875
2003 1,150,000		—	1,726,313	2,876,313
2004 1,225,000		—	1,648,688	2,873,688
2005 —		\$1,325,000	1,566,000	2,891,000
2006 —		1,400,000	1,476,563	2,876,563
2007 —		1,500,000	1,382,063	2,882,063
2008 —		1,600,000	1,280,813	2,880,813
2009 —		1,700,000	1,172,813	2,872,813
2010 —		1,825,000	1,058,063	2,883,063
2011 —		1,950,000	934,875	2,884,875
2012 —		2,075,000	803,250	2,878,250
2013 —		2,225,000	663,188	2,888,188
2014 —		2,375,000	513,000	2,888,000
2015 —		2,525,000	352,688	2,877,688
2016 —		2,700,000	182,250	2,882,250

(1) Calculated at an assumed rate of 6¾%.

(2) Interest capitalized from bond proceeds.

DEBT SERVICE REQUIREMENTS AND COVERAGE

The following table shows, through the year ending September 30, 1989, the estimated debt service on the Bonds, the estimated payments to be made by Portland General Electric and the resultant coverage factors. Note that this table assumes completion of the Project by February 1, 1982 and the generation and delivery of 108,700,000 kwh to Portland General Electric Company. See Appendix A for a more complete description of the assumptions used in determining the payments to be made by PGE.

Year Ending September 30	Estimated Debt Service ⁽¹⁾	Payments by Portland General Electric	Times Coverage
1979	—	—	—
1980	—	—	—
1981	—	—	—
1982	—	\$1,615,410	—
1983	\$2,865,000	3,819,430	1.33
1984	2,869,750	3,868,004	1.35
1985	2,872,813	3,917,991	1.36
1986	2,874,188	3,969,617	1.38
1987	2,873,875	4,023,127	1.40
1988	2,871,875	4,078,785	1.42
1989	2,893,188	4,895,227	1.69

(1) Estimated at 6¾%.

CITY OF PORTLAND LITIGATION

On November 14, 1977 the City of Portland, Oregon, and five of its residents brought two lawsuits against Bonneville Power Administration (BPA) in the United States District Court for the District of Oregon (Civil Actions 77-928 and 77-929). Subsequent to the filing of the lawsuits, all parties with which BPA has outstanding power sales contracts or net billing agreements were joined as defendants. In the first lawsuit plaintiffs sought, among other things, to have the City of Portland declared a preference customer of BPA; to have BPA's present method of marketing electric energy declared unlawful with respect to committing firm power to preference customers for resale for commercial and industrial purposes and for future load growth and committing power to non-preference customers in preference to the City of Portland; to have BPA's contracts to supply power to non-preference customers and to preference customers for resale to non-preference customers, executed after BPA knew or should have known that preference customers would apply for power, declared illegal; to have BPA's contracts to supply power to its customers for periods in excess of twenty years declared illegal; and to require BPA to sell power to the City of Portland. Certain Pacific Northwest investor-owned utility defendants, including PGE, subsequently filed cross claims against BPA and the Secretary of DOE based on alleged violations of the preference clause of the Bonneville Project Act. In the cross claims the defendants seek an order requiring Bonneville by December 20, 1979 to sell such defendants sufficient power to meet the loads of the defendants' domestic and rural customers.

On December 27, 1978 the District Court orally granted a motion by the defendants to dismiss the plaintiffs' claims in the first lawsuit on the ground that the City of Portland had not taken the steps necessary to render their claims ripe for court review. Subsequently the Court required further briefing on specific issues relating to the motion, and final briefs were filed on February 14, 1979. The investor-owned utilities' cross claims remain pending.

In the second lawsuit the City and the same residents seek, among other things, to have BPA's power sales contracts and net billing agreements entered into after January 1, 1970 declared null and void and to have their performance enjoined. The lawsuit is brought under the National Environmental Policy Act of 1969 ("NEPA") and alleges, among other things, that Bonneville did not prepare, publish, circulate and file detailed environmental impact statements concerning each of such agreements after

NEPA became effective on January 1, 1970. The complaint also seeks an order requiring the defendants to prepare, publicly circulate, file and consider a final and adequate environmental impact statement for each such power sales contract and net billing agreement. Further proceedings in the second lawsuit have been deferred by the court pending its resolution of certain preliminary issues in the first lawsuit. These issues are expected to be resolved by the court in ruling on the motion to dismiss plaintiffs' claims in the first lawsuit. Depending on such resolution the court is expected to resume proceedings in the second lawsuit.

In the opinion of the City Attorney, the outcome of this litigation will have no adverse effect on the Bonds.

DESCRIPTION OF THE BONDS

The \$38,000,000 Bonds shall be dated June 1, 1979, shall bear interest from such date (payable semi-annually on October 1, and April 1 in each year beginning October 1, 1979) at the respective rates specified by the successful bidder upon the public sale thereof by the City, and shall mature on the respective dates and in the respective amounts as follows:

<u>Date</u> <u>October 1</u>	<u>Amount</u> <u>Maturing</u>	<u>Date</u> <u>October 1</u>	<u>Amount</u> <u>Maturing</u>
1983	\$300,000	1995	\$ 675,000
1984	325,000	1996	725,000
1985	350,000	1997	775,000
1986	375,000	1998	825,000
1987	400,000	1999	900,000
1988	425,000	2000	950,000
1989	475,000	2001	1,000,000
1990	500,000	2002	1,075,000
1991	525,000	2003	1,150,000
1992	575,000	2004	1,225,000
1993	600,000	2016	23,200,000
1994	650,000		

The Bonds maturing on October 1, 2016 are also subject to redemption in part by lot prior to maturity, upon not less than 30 days published notice, on any interest payment date on or after October 1, 2005, upon payment of the principal amount thereof together with accrued interest to the date fixed for redemption, from amounts credited to the Bond Retirement Account representing sinking fund installments. The amount which shall be credited to such Bond Retirement Account as sinking fund installments shall be sufficient to redeem on October 1 of each year the principal amount specified for each of the years as follows:

<u>October 1</u>	<u>Principal</u> <u>Amount</u>	<u>October 1</u>	<u>Principal</u> <u>Amount</u>
2005	\$1,325,000	2011	\$1,950,000
2006	1,400,000	2012	2,075,000
2007	1,500,000	2013	2,225,000
2008	1,600,000	2014	2,375,000
2009	1,700,000	2015	2,525,000
2010	1,825,000	2016	2,700,000

The Bonds shall be subject to redemption on and after October 1, 1989, and prior to their respective maturities, in whole, or in part in inverse order of maturities (by lot within a maturity), on any interest payment date, at the respective redemption prices (expressed as percentages of the principal amount) set forth below, together with accrued interest to the redemption date:

<u>Redemption Dates</u>	<u>Redemption Price</u>
October 1, 1989 and April 1, 1990.....	103 %
October 1, 1990 and April 1, 1991.....	102½
October 1, 1991 and April 1, 1992.....	102
October 1, 1992 and April 1, 1993.....	101½
October 1, 1993 and April 1, 1994.....	101
October 1, 1994 and April 1, 1995.....	100½
October 1, 1995 and thereafter.....	100

The Bonds are also redeemable out of proceeds received by the City from insurance and condemnation under certain conditions as provided in the indenture, and are immediately redeemable if any act or omission to act of PGE results in interest on the Bonds being includable in the gross taxable income of Bondholders, such redemption in either event to be at a price of 103% of the principal amount if redeemed prior to October 1, 1991 and at par if redeemed thereafter. If the Bonds are not redeemed upon a final determination that the interest thereon is taxable as described in this paragraph, the interest rate on the Bonds from the date of such determination shall be 10% per annum.

Principal and semi-annual interest (October 1 and April 1, first coupon October 1, 1979) are payable at the office of United States National Bank of Oregon, Portland, Oregon, or at the offices of the fiscal agent for the State of Oregon, New York, New York at the option of the holder.

The United States National Bank of Oregon, Portland, Oregon is the Trustee.

SUMMARY OF CERTAIN PROVISIONS OF THE TRUST INDENTURE

Proceeds

The Trustee shall deposit bond proceeds in the following funds:

- 1) In the Interest Account, an amount equal to the interest due on the Bonds to October 1, 1982.
- 2) In the Reserve Fund, maximum annual debt service.
- 3) In the Renewal and Replacement Fund \$321,000.
- 4) The balance in the Construction Fund.

Investment of Funds

Moneys in all funds may be invested in federal securities, or in time deposits secured by federal securities or by general obligation bonds of the State of Oregon, or of any political subdivision thereof, rated in the two highest categories.

Additional Bonds

Additional Bonds may be issued to refund the Bonds, to complete the Project, to acquire additional facilities, and to pay incidental costs for any of the foregoing, subject to the approval of Portland General Electric if for additional facilities, and maturing no later than the final effective date of the Power Sales Agreement.

Supplemental Indentures

Except to add covenants, to cure ambiguities, to qualify the Indenture under Federal statutes, or to issue authorized additional bonds, the Indenture may be supplemented or amended only with the consent of the holders of 66⅔ percent of all Bonds outstanding.

Registration

The Bonds are issuable as coupon bonds or as fully registered bonds.

THE CITY OF PORTLAND

Background

The City of Portland is located in northwestern Oregon at the meeting point of the Columbia and Willamette Rivers, approximately 65 miles from the Pacific Ocean. Residents of the City enjoy the benefits of a sophisticated transportation and distribution network, including a major world seaport, four railroads, 10 air passenger and cargo carriers and a complete network of interstate highways.

Although the City of Portland is primarily within Multnomah County, portions of the City also reach into Clackamas County and Washington County. The Portland Standard Metropolitan Statistical Area (SMSA), having an estimated population of more than 1,150,000, covers the urbanized area of the above counties as well as Clark County in the neighboring State of Washington. The combined populations of Multnomah, Clackamas and Washington Counties currently represents more than 40% of the State's population.

Portland and the surrounding area enjoy a moderate climate where temperature extremes are rare and usually of short duration. Winters are mild and a frost-free season extends from 180 to 250 days per year. Rainfall occurs sporadically during all seasons, with the principal rainy period extending generally from mid-November through March, and averages 38 inches per year.

Financial Data

Property taxes are payable in four installments, the 15th day of November, February, May and August. As of November 15th of each year there is a 3% discount for taxes paid in full, a 2% discount for taxes $\frac{3}{4}$ paid and a 1% discount for taxes $\frac{1}{2}$ paid.

Table 4 presents a five-year summary of total Multnomah County tax levies, Portland's share of the total levy (expressed as a percentage) and the total amount of taxes collected by the final tax payment date including prior years' delinquencies. As of April 30, 1978 the County had collected nearly 83% of the total 1977-78 levy.

Table 4
MULTNOMAH COUNTY
Tax Levies and Delinquencies (1)

Fiscal Year	Total Tax Levy	City's Share of Tax Levy	Amount Collected by August 15	Percent Collected by August 15 (2)
1972/73	\$161,648,925	20.0%	\$160,637,824	99.37%
1973/74	167,096,279	20.6	165,044,030	98.77
1974/75	183,693,120	20.7	179,373,817	97.65
1975/76	205,712,760	20.2	201,253,062	97.83
1976/77	227,043,981	19.7	219,728,659 (3)	96.77 (3)
1977/78	242,818,000	20.2	—	—

(1) Source: Multnomah County Tax Collector.

(2) Includes delinquencies.

(3) Through June 30, 1977.

Assessed valuations in Oregon are based upon 100% of true cash value of taxable property. The record of assessed valuation of the City of Portland and Multnomah County for the levying of taxes for the period 1972-73 through 1977-78 is as follows:

Table 5
CITY OF PORTLAND
Assessed Valuation (1)

Tax Year	City of Portland			Multnomah County
	Within Multnomah County	Outside Multnomah County	Total	
1972/73	\$3,947,767,655	\$11,633,298	\$3,959,400,953	\$5,447,815,611
1973/74	4,352,741,315	13,529,046	4,366,270,361	6,095,665,708
1974/75	4,623,941,051	14,578,204	4,638,519,255	6,601,803,446
1975/76	4,980,241,528	15,688,436	4,995,929,964	7,158,868,040
1976/77	5,433,735,761	18,841,101	5,452,576,862	7,849,742,110(2)
1977/78	6,156,624,351	24,869,503	6,181,493,854	8,926,199,366(2)

(1) Source: City Auditor of the City of Portland.

(2) Net of Urban Renewal Project incremental assessed value.

Taxes vary slightly within the City dependent upon the overlapping taxing agencies. A five-year summary of the total tax rate throughout most of Portland (per \$1,000 of assessed value), is shown in Table 6. As is noted in the tabulation, rates ranged from a high of \$28.82 in 1976-77 to a low of \$26.96 in 1977-78.

Table 6
CITY OF PORTLAND
1976/77 Total Tax Rate (1)

	1973/74	1974/75	1975/76	1976/77	1977/78
Multnomah County	\$ 4.78	\$ 4.59	\$ 4.46	\$ 4.59	\$ 4.26
Multnomah County Intermediate Education District	4.48	4.37	4.28	4.13	3.85
Port of Portland .....	.96	.89	.79	.74	1.15
Portland School District No. 1	8.91	9.05	10.12	10.34	9.06
Portland Community College .....	.71	.68	.65	.62	.58
Metro Service District	—	—	—	.17	.14
City of Portland	7.89	8.21	8.35	8.23	7.92
Total	\$27.73	\$27.79	\$28.65	\$28.82	\$26.96

(1) Source: Multnomah County Tax Collector.

Table 7 presents a statement of direct and overlapping bonded debt for the City of Portland as of May 1, 1977. Oregon statutes limit the direct bonded indebtedness of any city (less any revenue bonds, revenue-paid general obligations and assessment bonds) to 3% of assessed value. As of the statement date the City of Portland had direct debt, including urban renewal bonds, of 0.16%.

Table 7
CITY OF PORTLAND
Statement of Direct and Overlapping Bonded Debt (1)

<u>Agency</u>	<u>Percent Applicable</u>	<u>Debt Applicable June 30, 1978</u>
City of Portland		
General Purpose Bonds	100.%	\$ 250,500
Water Bonds	100.	16,075,000
Assessment Bonds	100.	4,031,393
Urban Renewal Bonds	100.	24,750,000
Subtotal		<u>\$45,106,893</u>
Less: Self Supporting Water Bonds	100.	\$16,075,000
Assessment Bonds	100.	4,031,393
Subtotal		<u>\$20,106,393</u>
Net Direct Debt		<u>\$25,000,500</u>
Overlapping Debt		
Port of Portland	39.04-100.	\$56,066,650
Mt. Hood Community		
College District .....	.0381	590,169
Clackamas County Area		
Education District	0.0040-0.0094	45,776
Washington County	0.0020-0.3470	63,869
Beaverton School District .....	.0053	154,791
Five Other School Districts	Various	328,317
Net Overlapping Debt		<u>\$57,249,572</u>
Net Direct and Overlapping Debt.		<u><u>\$82,250,072</u></u>
<hr/>		
	<u>Ratio to Assessed Valuation (2)</u>	<u>Per Capita (3)</u>
Net Direct Debt .....	.400%	\$ 64.95
Net Direct and Overlapping Debt	1.331	213.67
Assessed Value	—	16,085.66

(1) Source: City Auditor of the City of Portland.

(2) Assessed value of \$6,181,493,854 exclusive of \$63,666,992 incremental assessed value within the Downtown Urban Renewal Project.

(3) Estimated population of 384,932.

On March 17, 1977 the Municipal Finance Officers Association awarded its Certificate of Conformance for financial reporting for the annual financial report of the City of Portland. The Certificate covers a three-year period through 1979, based on an annual review by the Association. The first such annual review has been completed. Table 8 presents a five-year summary of Municipal revenues and expenditures.

Table 8
CITY OF PORTLAND
Summary of Revenue and Expenditures for the Five Years Ending June 30, 1978(1)

	For the Fiscal Year Ended June 30				
	1978	1977	1976	1975	1974
REVENUES					
Property Taxes	\$34,352,736	\$32,496,047	\$30,209,293	\$27,566,384	\$26,044,070
Other Taxes	1,331,689	1,153,604	963,170	925,543	872,716
Total Taxes	\$35,684,425	\$33,749,651	\$31,172,463	\$28,491,927	\$26,916,786
Licenses and Permits	16,038,258	14,283,882	11,330,854	9,443,078	9,058,476
Service Charges and Fees	3,509,785	3,210,896	2,731,011	2,377,776	1,907,640
Other Governmental Sources	5,978,989	5,346,008	5,706,969	4,970,098	4,589,779
Interfund Transfers and					
Reimbursements	35,791,524	30,631,511	29,975,632	27,813,571	21,138,703
Miscellaneous Revenues	1,919,758	1,440,692	1,870,767	1,908,009	2,336,892
Total Revenue	<u>\$98,917,739</u>	<u>\$88,562,640</u>	<u>\$82,787,696</u>	<u>\$75,004,459</u>	<u>\$65,943,276</u>
EXPENSES					
Department of Finance and					
Administration	\$ 4,516,284	\$ 3,959,698	\$ 4,585,545	\$ 5,107,788	\$ 6,004,363
Department of Public Affairs	18,958,644	13,585,099	14,622,684	14,993,006	11,389,003
Department of Public Safety	44,427,809	41,042,478	37,737,307	34,295,612	29,536,477
Department of Public Works	19,501,378	17,618,092	15,810,543	14,175,581	12,979,865
Department of Public Utilities ...	3,261,298	2,628,550	2,185,111	1,982,830	3,720,009
Non-Departmental	1,457,514	1,283,403	1,731,011	938,222	774,997
Total Expenses	<u>\$92,122,927</u>	<u>\$80,117,320</u>	<u>\$76,672,201</u>	<u>\$71,493,039</u>	<u>\$64,404,714</u>
CAPITAL OUTLAYS					
Department of Finance and					
Administration	\$ 56,933	\$ 55,930	\$ 96,094	\$ 57,284	\$ 67,106
Department of Public Affairs	1,828,137	797,361	773,434	1,447,391	1,100,744
Department of Public Safety	501,672	628,197	313,395	470,267	897,801
Department of Public Works	2,881,794	1,278,543	642,146	1,040,889	1,363,863
Department of Public Utilities ...	979,383	502,029	525,044	838,839	2,292,706
Non-Departmental	8,068	502	17,812	4,762	7,489
Total Capital Outlay	<u>\$ 6,255,987</u>	<u>\$ 3,262,562</u>	<u>\$ 2,368,735</u>	<u>\$ 3,859,432</u>	<u>\$ 5,729,709</u>

(1) Source: City Auditor of the City of Portland.

Pension Plans

Substantially all of the employees of the City of Portland, other than fire and police personnel, are covered under the Oregon Public Employees Retirement System (PERS) into which employees contribute to an annuity portion of retirement allowances and employers contribute to a pension portion. The pension program must undergo an actuarial review at least once each four years, as required by statute. The most recent actuarial valuation of PERS was made during the 1977 fiscal year and determined that PERS had substantial unfunded amounts for vested benefits and prior service of its participants as of December 31, 1975. Accordingly the City's contribution rate of 7.88% of employee compensation will be increased in stages each year beginning with the 1979 fiscal year at 8.92% to 11.28% in the 1982 fiscal year and the following 26 fiscal years.

All sworn fire and police personnel are covered under the City Fire and Police Disability Retirement Fund. The Fund is financed on the pay-as-you-go basis, primarily from property taxes and member contributions. The Board of Trustees of the Fund has the authority to levy taxes to a maximum rate of \$2.50 per \$1,000 of true cash value. The levy for 1977-78 was \$10,239,564, approximately \$1.66 per \$1,000. If there is a funding deficiency, benefits are to be paid on a pro-rata basis. The City is not liable for any such deficiency.

Labor Relations

The City of Portland has approximately 4,100 fulltime employees and usually ranges between 200-300 seasonal employees. The City has operated under a formalized collective bargaining ordinance since 1969. Approximately 85% of the employees are now represented by some bargaining unit, nine of which are AFL-CIO affiliates and one is affiliated with the Teamsters Union.

Contracts with the bargaining units run out at various times, including two contracts covering approximately 1,900 employees which run out this year. All contracts with the City have no-strike provisions and there has never been a public employee strike against the City of Portland.

Growth Indices

Various growth indices for the City of Portland and the Portland SMSA during the past five years are shown in the following tabulation.

Growth Indices

Year	SMSA Population ⁽¹⁾	Building Permit Valuations ⁽¹⁾	Bank Debts ⁽¹⁾	SMSA Retail Sales (thousands) ⁽²⁾	Foreign Trade (thousands of tons) ⁽¹⁾
1973	1,059,300	\$101,128,000	\$64,416,000	\$2,787,193	8,113
1974	1,071,500	77,311,800	76,565,000	3,036,900	8,362
1975	1,090,700	126,334,951	77,230,000	3,341,793	7,137
1976	1,109,100	103,851,526	93,082,000	3,637,966	7,847
1977	1,132,200	151,860,055	n.a.	n.a.	8,015
1978	1,153,900	237,107,010	n.a.	n.a.	10,032

(1) Source: Portland Chamber of Commerce.

(2) Source: *Sales Management Survey of Buying Power*. Further reproduction not licensed.

Employment

Total estimated civilian employment in the Portland SMSA stood at 562,000 in December 1978. Unemployment had fallen from 9.8% in 1975 to an estimated 4.9% in 1978. Total non-agricultural employment as of December 1978 is segregated by category in Table 9.

Table 9
PORTLAND SMSA
Nonagricultural Employment (1)

Manufacturing	108,500
Contract Construction	27,700
Transportation, Communication and Utilities	34,700
Wholesale and Retail Trade	138,800
Finance, Insurance and Real Estate	40,700
Services and Miscellaneous	102,500
Government:	
Federal	15,700
State and Local	65,000
Total Wage and Salary	533,600
Other Categories	28,400
Total	<u>562,000</u>

(1) Source: Oregon State Department of Human Resources.

The following tabulation lists the 30 largest manufacturing firms in the Portland SMSA. Many nationally recognized firms are included on this listing, including FMC Corporation, Crown Zellerbach, Alcoa, Reynolds Metals and International Paper Co.

PORTLAND SMSA
30 Largest Manufacturing Firms (1)

<u>Firm</u>	<u>Product</u>	<u>Employees</u>
Tektronix, Inc.	Display and signal equipment	9,500
Crown Zellerbach	Pulp, paper, wood and chemicals	5,592
FMC Corporation	Railroad cars, oil tankers	2,554
Freightliner Corporation	Heavy duty trucks	2,052
Jantzen, Inc.	Sportswear	1,858
Esco Corporation	Steel castings	1,600
Aluminum Company of America	Aluminum ingots	1,500
GAF Corporation	Slide-viewers, projectors	1,250
Publishers Paper Company	Newsprint, meat/fruit wrap, paper towels	1,250
Hyster Company	Fork lift trucks, heavy equipment and logging equipment	1,170
Bingham-Willamette Corp.	Nuclear components, valves and pumps	1,050
Pendleton Woolen Mills	Men's and women's apparel	1,044
Reynolds Metals Co.	Aluminum ingots	1,000
Oregonian Publishing Co.	Newspaper, daily and Sunday	968
Boeing of Portland	Aircraft components	900
Del Monte Corporation	Fruits and vegetables	900
Precision Castparts	Investment castings	850
Omark Industries	Sawchains, power tools and fasteners	832
Georgia-Pacific Corp	Lumber, pulp, plywood and paper	831
Boise Cascade Corporation	Printing papers	781
Zidell Explorations	Barges, industrial valves and fittings, marine equipment	700
Gilmore Steel Corporation	Steel	650
Northwest Marine Iron Works	Barges, ship conversion	650
Wagner Mining Equipment	Underground mining equipment	600
Nabisco, Inc.	Cookies, crackers	560
Northwest Packing Co.	Canned fruits and vegetables	550
Electronic Specialty	Airframe structures, relays and gyroscopes	500
International Paper Co.	Plywood, lumber and logs	500
Columbia Machine, Inc.	Concrete block plant equipment	475
Owens-Illinois, Inc.	Glass containers	460

(1) Source: Portland Chamber of Commerce.

Portland is corporate headquarters for numerous corporations with nationally recognized names. Among these firms are Tektronix, in the electronics field; Jantzen, White Stag, Kandel Sportswear and Pendleton Woolen Mills in clothing; and Louisiana-Pacific Corp. in lumber.

Education

Primary and secondary education in the City of Portland and some immediately surrounding areas is provided by Portland School District No. 1. The District operates 14 high schools, 89 elementary schools, 29 special schools and five alternative schools, providing education for approximately 57,500 students.

Portland State University, one of the three large universities in the Oregon State System of Higher Education, is located on a campus encompassing an area of 26 blocks adjacent to the downtown business and commercial district of Portland. The University offers baccalaureate degrees in 34 areas of the liberal and professional arts and sciences, masters degrees in 29 fields, and three interdisciplinary doctoral programs involving 11 departments. Enrollment is nearly 16,000.

Also located in Portland is the University of Oregon Health Sciences Center, which represents a combining of the University's Medical School, Dental School and School of Nursing. Combined enrollment is approximately 2,000. Associated hospital, clinical and research facilities add considerably to the community benefit from the location of the Health Services Center in Portland.

Independent colleges in Portland include Lewis & Clark College and the University of Portland, each with approximately 2,300 students; Reed College, 1,100 students; the Marylhurst Education Center which serves approximately 2,000 students in classes and programs for all ages; and two small church affiliated schools, Warner Pacific College and Columbia Christian College. The Western States Chiropractic College also is located at Portland. Community colleges serving the Portland area include Portland Community College, which operates educational centers serving some 55,000 people a year in several locations in Portland as well as in neighboring Washington and, to the north, Columbia Counties; Mt. Hood Community College serving about 12,000 students per term at its campus near Gresham east of Portland, and Clackamas Community College serving about 7,000 students per term at Oregon City in Clackamas County. Two small junior colleges, Concordia College and Judson Baptist College, are in Portland. The Division of Continuing Education of the State System of Higher Education offers a diversified program for adult education in Portland, as it does throughout the State, principally through evening courses but also by correspondence and through other services.

NO DEFAULT

There is no record of default in the payment of principal of nor interest on any revenue bonds, revenue warrants or notes of the City of Portland.

CUSIP NUMBERS

It is anticipated that CUSIP identification numbers will be printed upon the Bonds, but neither the failure to print such number on any Bond nor any error with respect thereto shall constitute cause for a failure or refusal by the purchaser thereof to accept delivery of and pay for said Bonds in accordance with the terms of the purchase contract.

LITIGATION

There is no litigation pending or, to the knowledge of the City, threatened, in any way questioning or affecting the validity of the Bonds, or the power and authority of the City to fix and collect rates and charges for electric energy supplied by the City in amount sufficient to pay the principal of and interest on the Bonds.

The City is engaged in routine litigation incidental to the conduct of its business. In the opinion of the City Attorney the aggregate amounts recoverable are not material.

TAX EXEMPTION

Interest on the Bonds will be exempt, in the opinion of Ragen, Roberts & O'Scannlain, Portland, Oregon and Rutan & Tucker, San Francisco, California, Bond Counsel, from Federal income taxation and State of Oregon personal income taxes under existing laws and regulations.

LEGAL OPINION

Ragen, Roberts & O'Scannlain, Portland, Oregon and Rutan & Tucker, San Francisco, California, Bond Counsel, will render an opinion with respect to the validity of the Bonds. No representation is made to the holders of the Bonds that Bond Counsel has verified the accuracy, completeness or fairness of the statements in this Official Statement, and Bond Counsel assumes no responsibility to the holders of the Bonds except for the matters that will be set forth in their opinion. Legal matters in connection with the Bonds are further subject to the approval of the City Attorney of the City of Portland.

CERTIFICATE AS TO OFFICIAL STATEMENT

147547

The City will provide to the successful bidder of the Bonds a certificate, dated and delivered on the date of delivery of and payment for the Bonds, attesting that on the date of such certificate (i) the descriptions and statements of or pertaining to the City contained in the Official Statement were and are true in all material respects; (ii) insofar as the City and its affairs, including its financial affairs, are concerned, this Official Statement did not and does not contain an untrue statement of a material fact or omit any statement or information which is necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; and (iii) insofar as the descriptions and statements, including financial data, of or pertaining to other entities and their activities contained in this Official Statement are concerned, such descriptions, statements and data have been obtained from sources which the City believes to be reliable and the City has no reason to believe that they are untrue in any material respect.

The references herein to the various statutes of the State of Oregon, the City Charter, the Trust Indenture, Power Sales Agreements, and resolutions of the City Council with reference to the issuance of the Bonds, are merely brief outlines of certain of the provisions thereof. Such outlines do not purport to be complete, and reference is made to all such documents for full and complete statements of such provisions. Copies of such documents are on file at the office of the Auditor.

CITY OF PORTLAND, OREGON

ATTEST:



APPENDIX A

ENGINEERING REPORT

Manager of Hydroelectric Power
City of Portland
Bureau of Water Works
1800 S.W. Sixth Avenue
Portland, Oregon 97201

April 18, 1979
Subject: Portland Hydroelectric
Project, Consulting
Engineers Report

Dear Sir:

Presented herewith is our engineering report on the Portland Hydroelectric Project (the Project) with respect to the proposal by the City of Portland to issue Hydroelectric Power Revenue Bonds in the amount of \$38,000,000. The report includes a description of the major equipment and facilities to be purchased and constructed; a project summary schedule that describes the major design, procurement, and construction activities; a summary of the total project construction costs; and an analysis of the economic benefits to the City of Portland.

1. Background

The City water supply source from the Bull Run River was initially developed about 85 years ago and is the sole source of municipal water for Portland. Present pipeline capacity is estimated to be 225 million gallons per day. The City has developed 21 billion gallons of seasonal storage in impounding reservoirs at the Bull Run River Watershed.

Two existing dams form the primary reservoirs: Dam No. 1 is a concrete gravity dam with a water depth of about 170 feet, and Dam No. 2 is an earthfill dam (rock embankment shell and impervious core) with about 110 feet of water depth. Dam No. 1 was built between 1927 and 1929, and Dam No. 2 was built between 1959 and 1962. Each dam was designed and built to provide for the future addition of hydroelectric power facilities, including intakes, trash racks, and power penstocks.

2. Proposed Project

The Project consists of two powerhouses, one at each of the existing dams. Pertinent data for each powerhouse are summarized in Table 2-1.

Powerhouse No. 1 will be an indoor reinforced concrete substructure with a steel frame superstructure and one 24 megawatt (MW) generating unit powered by a vertical-shaft Francis turbine. A water quality intake structure will be installed to allow withdrawal of water from various levels in the reservoir for use in the power turbine. This tower will allow the City to regulate the depth of withdrawal to protect against any adverse impact on water quality.

The operation of Powerhouse No. 1 will be scheduled to maximize the energy output; operation will be within the constraints defined in the plant operating license to limit daily variation in reservoir level to two feet for the purpose of hydroelectric power generation.

The substation for Powerhouse No. 1 will consist of low-side circuit breakers at a generator-voltage of 13,800 volts, a 13,800/60,000-volt, 25,000-kVA transformer, and fused disconnect switches on the high voltage side. The substation will be located immediately adjacent to the powerhouse and between the dam and the powerhouse.

Portland Office

200 S.W. Market Street, 12th Floor, Portland, Oregon 97201 503/224-9190 Cable: CH2M HILL

Powerhouse No. 2 will be an indoor, reinforced concrete substructure with a steel frame superstructure and a single 12 MW synchronous generator driven by a vertical-shaft Kaplan turbine.

The turbine at Powerhouse No. 2 will be operated to avoid extreme variations in outflow. The unit will normally be operated 7 days a week for 12 to 24 hours per day when water is available at loads ranging from 30 to 100 percent of rated output. During most years, it may be impractical to operate Powerhouse No. 2 during the summer months of July, August, and September because of low streamflow.

The substation will be located immediately adjacent to Powerhouse No. 2. This location is best suited to serve Powerhouse No. 2, the transmission line from Powerhouse No. 1, and the outgoing line. The substation will contain a 13,800/60,000-volt transformer, a low-side 13,800-volt circuit breaker, and a fused disconnect switch for the outgoing lines.

A single 57-kilovolt (kV) transmission line from Powerhouse No. 1 substation will connect with the Powerhouse No. 2 substation and terminate at an existing bus position and high voltage breaker at the existing Portland General Electric Company (PGE) substation. The line will be single-pole construction, with one top-mounted vertical insulator and two opposite-side horizontal insulators. A control and communication cable will be carried below the line on the same poles.

The intake to the City water supply is located below the tailrace at Powerhouse No. 2; the Project will therefore always be operated to avoid any adverse effects on the quantity, quality, and reliability of the City of Portland's water supply.

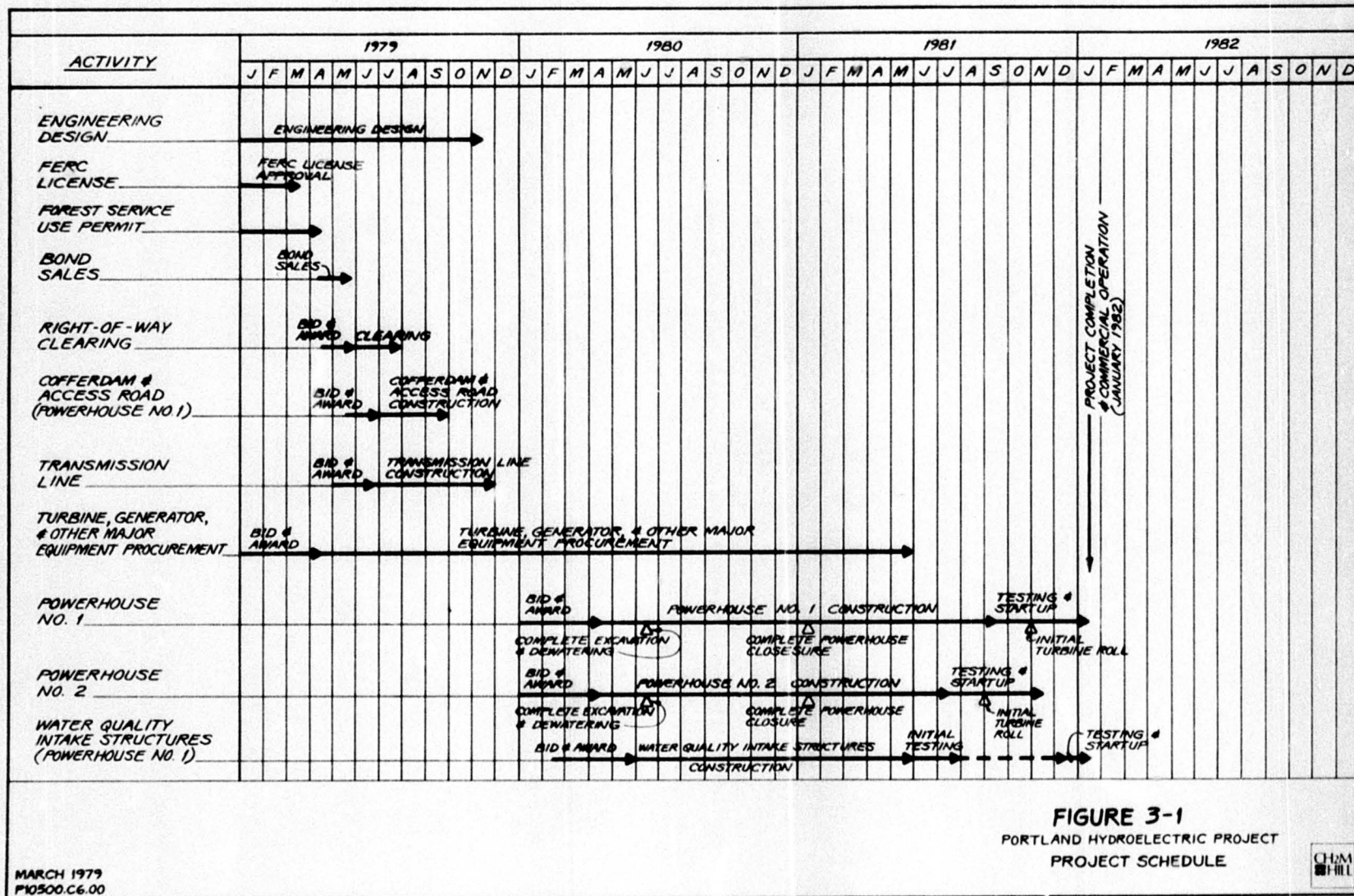
Table 2-1
CITY OF PORTLAND HYDROELECTRIC PROJECT
SUMMARY OF POWERHOUSE DATA

147547

	<u>Powerhouse No. 1</u>	<u>Powerhouse No. 2</u>
GENERAL DATA		
Drainage Area (sq. miles)	75	102
Mean Annual Flow (1,000 acre-feet)	419	553
RESERVOIR DATA		
Normal Maximum Water Surface (Feet MSL)	1,045	860
Normal Minimum Water Surface	980	820
Surface Area to Normal Maximum Water		
Surface	417 Acres	418
Normal Operating Storage (acre feet)	20,000	14,000
DAM DATA		
Type	Concrete Gravity	Rockfill, Impervious Core
Crest Elevation (ft. MSL)	1,050	875
Crest Length (ft.)	1,000	900
Crest Width (ft.)	18	25
Maximum Height—Streambed to Crest (ft.) ..	190	130
Normal Freeboard (ft.)	14	15
SPILLWAY DATA		
Type	Gated Ogee Overflow	Channel, Ogee Weir
Overall Width (ft.)	120	450
Crest Elevation (ft.)	1,036	860
Maximum Design Discharge (cfs)	21,000	30,000
POWER WATERWAYS		
Penstock Elevation, Centerline (ft.)	900	760
Intake Service Gate	2 each 90-inch Valves	2 each 14' x 9' Wheels
Power Conduit Length (ft.)	250	1,100
Power Conduit Diameter	2 @ 8'	15 ft.
Rate Flow at Rated Head (cfs)	1,860	1,630
POWER PLANT DATA		
Type	Indoor	Indoor
Number of Units	1	1
Maximum Static Head (ft.)	179	111
Average Year Estimated		
Gross Energy Production (Base year 1962) ..	69.3 million kwh	41.9 million kwh
Turbine Type	Francis	Kaplan
Elevation of Center Line in Distributor (ft.) ..	853	741
Generator Rating (kva)	25,000	12,500
Crane Type and Rating	90-ton Bridge	75-ton Bridge
Transformer, OA Type	13.8/57 kv, 24/26.9 MVA	13.8/57 kv, 12/13.4 MVA
RPM	212	257

3. Project Schedule

The schedule shown on Figure 3-1 illustrates the major activities and milestones on the Project. The primary activities shown are: engineering design; licensing; bond sale; right-of-way clearing; and construction of the access road, transmission line, powerhouse, and water quality tower. Milestones are identified on the schedule for major equipment deliveries, completion of significant construction activities, and unit testing and startup.



147547

The Project schedule has been reviewed with representatives from Peter Kiewit Sons' Company of Vancouver, Washington, a contractor with extensive experience in powerhouse construction. The elapsed time intervals for the construction items have been formulated with the assistance of Peter Kiewit Sons'.

Project activities have been underway since November 1976 in the areas of licensing, engineering design, and equipment procurement. The Federal Energy Regulatory Commission (FERC) license was granted to the City on March 22, 1979. The turbine and generator equipment contract was awarded on April 4, 1979. The engineering design of the access road and the transmission line has been completed and the construction documents for these parts of the Project are in the final states of preparation. Construction of the access road, transmission line, and Unit No. 1 cofferdam is scheduled to begin this summer and will be completed in the fall of 1979.

Engineering design for Powerhouses 1 and 2 will be completed in November 1979 and construction of these facilities is scheduled to begin in May 1980. The Project is scheduled for completion and initial commercial operation by February 1982. Peter Kiewit Sons' has reviewed the schedule and has indicated that the schedule is reasonable except for unforeseen or uncontrolled delays.

4. Project Costs

We have estimated the capital costs for the design, equipment procurement and construction of the proposed facilities to be \$27,396,000 as shown in Table 4-1. Additional costs, such as the City's costs, interest during construction, the Debt Service Reserve Fund deposit requirement, accrued interest, financing expenses, Renewal and the Replacement Fund deposit and Bond Discount, are defined in the section "Application of Bond Proceeds" of the Official Statement. The cost for the turbines and generators shown in Table 4-1 reflects the escalated cost for the equipment that has been selected for this Project and represents approximately 20% of the total Project costs.

Based on data collected by FERC on the annual costs of small automated hydroelectric plants in the size range of this Project, we estimate the annual operation and maintenance cost of the Project to be \$281,000 in 1982. The Power Sales Agreement between the City and PGE provides that all such costs shall be paid by PGE.

The Power Sales Agreement provides for the annual payment by PGE to the City for renewals and replacements in an amount equal to 1.25 percent of all City costs of acquisition, construction and Financing of the Project, excluding the Debt Service Reserve Fund, interest during construction and the initial deposit to the Renewal and Replacement Fund. Based on our review of FERC data, such payments will be adequate to meet the normal needs for renewals and replacements.

Table 4-1

**PORTLAND HYDROELECTRIC PROJECT
PROJECT COST SUMMARY**

January 1979

<u>Project Activity</u>	<u>Total Projected Cost⁽¹⁾</u>
Engineering and Construction Management Services	\$ 3,556,000
Equipment Procurement	
a. Turbines and Generators	5,435,000
b. Turbine Guard Valve	604,000
c. Bridge Cranes	600,000
Construction	
a. Transmission Line	1,000,000
b. Access Road	590,000
c. Powerhouse No. 1	5,337,000
d. Powerhouse No. 2	4,198,000
e. Water Quality Intake Structures	2,626,000
Subtotal	\$23,946,000
Contingency (15% of Subtotal)	3,450,000(2)
Total Project Cost(3)	\$27,396,000

- (1) Costs shown are gross nondiscontinued cash flows and reflect escalation of estimated equipment and construction costs at 11 percent per annum, compounded annually, based on current project schedule.
- (2) Contingency not applicable to \$943,000 total expenditures through 31 December 1978.
- (3) Additional Project costs such as Owner's costs, interest during construction and bond reserves are defined under Application of Bond Proceeds.

5. Economic Benefits

The benefits of the Project can be measured by the revenue to the City of Portland from the sale of the entire output of the Project to the PGE as required by the Power Sales Agreement.

Pursuant to the Power Sales Agreement, PGE pays to the City an annual amount equal to the debt service on the Bonds, required payments for renewals and replacements, and the City's costs for insurance, permits and licenses, water quality testing and control, and the City's reasonable cost of administration of the Project. In addition, PGE is required to pay an amount equal to the share the savings element and an amount equal to \$305,000 as adjusted for the actual annual energy output of the Project as defined in the Power Sales Agreement.

The payments PGE is expected to make to the City are summarized in Table 5-1 over the period of 1982 to 2016. It is estimated that in 1983 PGE will pay a total amount of \$3,819,000 to the City and an amount of \$303,000 for operation and maintenance costs. Using the average annual energy production of 108.7 million kWh, the cost of power to PGE from the Project is 37.9 mills per kWh in 1983. The average cost of power to PGE for the five year period from 1983 through 1987 inclusive is estimated to be 39.3 mills per kWh.

6. Conclusions and Recommendations

Based on our evaluation of the project and the material presented herewith, we have the following conclusions and recommendations:

- The Project is economically and financially feasible.
- The Project will not be detrimental to the City's high quality water supply. Precautions will be taken during construction and operation to preclude any adverse effects on the City's water supply.
- The overall environmental impact of the Project will not be significant, primarily because the impoundments are already in place, the scale of the Project is relatively small, and special precautions have been incorporated to protect against adverse impacts caused by construction and operation.

Table 5-1
PORTLAND HYDROELECTRIC PROJECT

Year	Power Production Payment ⁽¹⁾	Debt Service ⁽²⁾	Payment For Share of the Savings ⁽³⁾	Payment for Renewals and Replacement ⁽⁴⁾	Payments for City's Reimbursable Expenses ⁽⁵⁾	Total Annual Payments to City by Portland General Electric
1982	\$146,705	\$ 0	\$ 987,956	\$ 350,398	\$ 130,351	\$ 1,615,410
1983	305,000	2,865,000	0	378,430	271,000	3,819,430
1984	305,000	2,869,750	0	408,704	284,550	3,868,004
1985	305,000	2,872,813	0	441,401	298,778	3,917,991
1986	305,000	2,874,188	0	476,713	313,716	3,969,617
1987	305,000	2,873,875	0	514,850	329,402	4,023,127
1988	305,000	2,871,875	0	556,038	345,872	4,078,785
1989	305,000	2,893,188	733,352	600,521	363,166	4,895,227
1990	305,000	2,886,125	887,072	648,562	381,324	5,108,084
1991	305,000	2,877,375	958,038	700,447	400,390	5,241,250
1992	305,000	2,891,938	1,034,681	756,483	420,410	5,408,512
1993	305,000	2,878,125	1,117,455	817,002	441,430	5,559,012
1994	305,000	2,887,625	1,206,852	882,362	463,502	5,745,341
1995	305,000	2,868,750	1,303,400	952,951	486,677	5,916,778
1996	305,000	2,873,188	1,407,672	1,029,187	511,011	6,126,058
1997	305,000	2,874,250	1,520,286	1,111,522	536,561	6,347,619
1998	305,000	2,871,938	1,641,908	1,200,443	563,390	6,582,679
1999	305,000	2,891,250	1,773,261	1,296,479	591,559	6,857,549
2000	305,000	2,880,500	1,915,122	1,400,197	621,137	7,121,956
2001	305,000	2,866,375	2,068,332	1,512,213	652,194	7,404,114
2002	305,000	2,873,875	2,233,798	1,633,190	684,804	7,730,667
2003	305,000	2,876,313	2,412,502	1,763,845	719,044	8,076,704
2004	305,000	2,873,688	2,605,502	1,904,953	754,996	8,444,139
2005	305,000	2,891,000	2,813,942	2,057,349	792,746	8,860,037
2006	305,000	2,876,563	3,039,058	2,221,937	832,383	9,274,941
2007	305,000	2,882,063	3,282,183	2,399,692	874,002	9,742,940
2008	305,000	2,880,813	3,544,757	2,591,667	917,702	10,239,940
2009	305,000	2,872,813	3,828,338	2,799,001	963,587	10,768,739
2010	305,000	2,883,063	4,134,605	3,022,921	1,011,767	11,357,355
2011	305,000	2,884,875	4,465,373	3,264,755	1,062,355	11,982,358
2012	305,000	2,878,250	4,822,603	3,525,935	1,115,473	12,647,261
2013	305,000	2,888,188	5,208,411	3,808,010	1,171,246	13,380,855
2014	305,000	2,888,000	5,625,084	4,112,651	1,229,809	14,160,543
2015	305,000	2,877,688	6,075,091	4,441,663	1,291,299	14,990,740
2016	305,000	2,882,250	6,561,098	4,796,996	1,355,864	15,901,208

(1) Based on average water year and generation of 108,700,000 kWh.

(2) At an assumed interest rate of 6¾%.

(3) Based on estimated difference in cost per kWh between most recent PGE thermal plant and cost per kWh at Project escalated at 8% annually.

(4) Calculated at 1¼% of direct project costs and 8% escalation in the Construction Cost Index.

(5) City's cost of administration, water quality testing and control, permit and license fees, and insurance, escalated at 5% per year.

- The Project will consist of a single 12 megawatt plant at Dam No. 2 and a single 24 megawatt plant at Dam No. 1. Transmission lines will carry the power at 57,000 volts to PGE's Bull Run substation.
- Net energy production from the project will be about 108.7 million kWh with average year hydrology, about 85 million kWh in a critical year, and about 130 million kWh in a wet year.
- Dependable capacity of Powerhouse No. 1 will coincide with the nominal full-rated capacity of 24 megawatt. Powerhouse No. 2 will attain its 12 megawatt full-rated capacity only during average year winter and spring hydrologic conditions.
- Based on extrapolation of cost indexes and a cash flow relative to the Project schedule, we estimate the Project's costs to be \$27,396,000, excluding City costs, interest during construction, the Debt Service Reserve Fund Requirement deposit, accrued interest, financing expenses, the Renewal and Replacement Fund deposit, and bond discount.
- Benefits to be derived from the Project include the development of a valuable source of energy that would otherwise continue to go to waste. In addition, the sale of power produced by the Project will provide the City with a net annual income.
- As a result of the study, and considering the above conclusions, we recommend that the City proceed with the Project.

In addition to the information contained in this report, we have furnished you with information for use in the Official Statement under the following captions: "Future Marketability of Power Produced," and "Portland Hydroelectric Project."

It is our opinion that the information contained in this report and under the above mentioned captions is correct.

Respectfully submitted,

CH₂M Hill

PORTLAND GENERAL ELECTRIC COMPANY

The following information relating to Portland General Electric Company has been extracted from their most recent Prospectus dated February 27, 1979. The information may not reflect actions or events subsequent to that date.

Portland General Electric Company, incorporated in Oregon in 1930, is an electric utility engaged in the generation, purchase, transmission, distribution and sale of electricity in the State of Oregon. The Company's service area is 3,350 square miles, including 54 incorporated cities of which Portland (also partially served by Pacific Power and Light Company) and Salem are the largest, within a State approved service area allocation of 4,250 square miles. The Company estimates that the population of its service area at the end of 1978 was approximately 1,000,000. At December 31, 1978, the Company served about 460,000 customers, constituting approximately 40% of the State's electric customers.

Business

Electric energy sales for the 12 months ended November 30, 1978 amounted to 13,217,020 megawatt-hours including 1,193,404 megawatt-hours of sales for resale. In such period 48% of the Company's total operating revenues were derived from residential service, 25% from commercial and small industrial users, 18% from large industrial users and 9% from others. The average use per residential customer served by the Company during this period was 13,316 kilowatt-hours, approximately 1.6 times the 1977 investor-owned utilities national average, and the average revenue per kilowatt-hour sold to all residential customers was 2.69¢ compared with the 1977 national average of 4.06¢.

The basic economic activities in the Company's service are lumbering, wood products, pulp and paper manufacturing, diversified agriculture, food processing, primary and fabricated metal producing, and the manufacture of clothing, machinery and electronics equipment. Portland is the major distribution and retailing center for Oregon, southern Washington and most of Idaho and a major West Coast shipping port.

Kilowatt-hour sales to ultimate customers have increased in each of the years 1973 through 1977 and for the twelve month period ended November 30, 1978 as a result of population growth. This growth has been partially offset by energy conservation measures, including the Company's own activities. The increase in 1976 over 1975 was also due in part to a three-month strike commencing in 1975 at the plants of the Company's largest industrial customer, which resulted in curtailment of usage not only by such plants but by suppliers of such customers.

The Company has approximately 2,600 regular employees of whom about 40% are represented by labor unions under working agreements which extend to March 1, 1981. The Company has group life insurance, retirement, stock purchase, sick benefit and medical plans for its employees. The employees and the Company share in the cost of these plans except the retirement and sick benefit plans, the cost of which is borne by the Company. See Note 1 of Notes to Financial Statements for further discussion of the Retirement Plan. The Company considers its employee relations satisfactory.

Power Supply

General

The Company's maximum hourly demand to date of 2,954 megawatts occurred in January 1979. To meet this demand the Company operated all of its generating facilities, and made use of a portion of the capacity available under existing exchange contracts with other utilities. The following tabulation shows the sources of energy for the 12 months ended November 30, 1978 and December 31, 1977.

	Twelve Months Ended November 30, 1978		Twelve Months Ended December 31, 1977	
	Megawatt- hours	%	Megawatt- hours	%
Company generation (net)—hydro	2,355,547	16.5	2,113,537	16.6
—thermal	1,740,786	12.2	4,675,400	36.7
Public Utility District Hydro (net)	4,151,073	29.0	3,295,184	25.9
Bonneville Power Administration	3,195,256	22.4	761,671	6.0
Columbia Storage and Power Exchange	925,349	6.5	953,896	7.5
Purchase and other (net)	1,917,508	13.4	924,894	7.3
Total	<u>14,285,519</u>	<u>100.0</u>	<u>12,724,582</u>	<u>100.0</u>

During the last five years the aggregate percentages of the Company's electric energy input obtained from hydroelectric facilities were as follows: 1973—95%, 1974—96%, 1975—94%, 1976—87%, 1977—53%, and the 12 months ended November 30, 1978—66%. The balance of such electric energy input during such periods was obtained from thermal generation. The Company expects that with the Trojan Plant in service, about one-half of its annual energy requirements will be from hydroelectric facilities, one-third from nuclear facilities and the balance from purchases (including secondary hydroelectric and/or thermal generation) and Company fossil fuel generation.

Trojan Plant

The Trojan Plant, located on a site 42 miles northwest of Portland, near the City of Rainier on the Oregon side of the Columbia River, is owned jointly by the Company (67½%), Eugene Water & Electric Board (30%) and Pacific Power & Light Company (2½%). The NRC has granted a 40-year license to operate the Trojan Plant at full power and all other presently required permits and certificates have been granted by other Federal and state agencies.

A licensee under an operating license from the NRC for a nuclear generating plant is required to maintain public liability insurance under the Price-Anderson Indemnification Act, as amended, covering both personal injury and property damage. As a part of the required insurance all owners of operating nuclear reactors may be assessed a retroactive premium of \$5,000,000 per reactor for each nuclear accident occurring at any reactor in the United States. Since there is a limit of two assessments per year, the Company's maximum exposure for the Trojan Plant would be \$6,750,000 per year.

Company Hydro

The Company owns eight hydroelectric generating plants with net peaking capability of 661 megawatts. All of the Company's hydroelectric plants are licensed under the Federal Power Act. Upon the expiration of a major license, a new license may be granted to the Company or, upon payment to the Company of its "net investment" therein, not to exceed "fair value" plus severance damages, the projects may be taken over by the United States or licensed to a new licensee. The licenses provide that after an initial 20-year period earnings in excess of a specified return ("excess earnings") are to be set aside in an amortization reserve, which may reduce the "net investment" in the projects.

The original license on the Oak Grove Hydroelectric Project expired in 1972 and the Company has made application for a new license. The United States has not acted on issuing a new long-term license. Annual licenses have been issued on the same terms and conditions as the original license. Preliminary calculations indicate that there are no excess earnings with respect to the Oak Grove Project as of December 31, 1977. The minor part license on the Bull Run Hydroelectric Plant expired in 1974, and annual licenses have been issued on the same terms and conditions as the original license. The licenses for all other Company hydro projects expire from 2001 to 2006.

The Company holds state licenses covering all or portions of certain hydroelectric projects which are also covered by licenses under the Federal Power Act. Such licenses expire between 2002 and 2011. Each of the state licenses, except one, contains provisions similar to the Federal Power Act licenses with respect to amortization reserves and authorizes the State of Oregon to take over the project when it is fully amortized. Under state law, the state or any municipality may acquire a project subject to state license, upon not less than two years' notice, at the fair value thereof but not exceeding the then "net investment", or otherwise may acquire a project by condemnation proceedings. No proceedings are currently underway to acquire any of the Company's hydroelectric projects under either State or Federal law.

On January 12, 1978 the Confederated Tribes of the Warm Springs Reservation petitioned the Federal Energy Regulatory Commission under the Federal Power Act for an order adjusting the annual charges from December 1977 payable to the Confederated Tribes for use of tribal lands in connection with the Company's Pelton Hydroelectric Project. In its answer to the petition, the Company denied the appropriateness of such an adjustment. Since testimony has not yet been submitted by the Confederated Tribes indicating the amount of the adjustment they believe appropriate, the Company cannot now predict the potential increase, if any, in the Company's costs which may result from this proceeding. In any event the Company believes any increase in the annual charges would be recoverable through the rate-making process.

Combustion Turbines

The Company has six jet-engine type combustion turbine-generator units, having a cold weather capability of 385 megawatts, and industrial type combustion turbine-generator units with a peak capability of 600 megawatts. All of the turbines and generators are leased, with the balance of each installation being owned by the Company. Four of the jet-engine type units are located in the Harborton area in Portland and two at the Company's Bethel Substation near Salem. The industrial type units, which

have been converted to combined cycle operation, are located at Beaver on the Columbia River approximately 60 miles northwest of Portland. All the units operate on petroleum distillates, although the jet engine type can also operate on natural gas, if available.

The Company's turbines are used primarily to meet peaking or emergency requirements. The operation of combustion turbines is subject to environmental regulation, which in the case of the Harborton station has prevented operation since 1975.

Public Utility Districts Hydro

The Company has long-term contracts with Washington Public Utility Districts ("Districts") owning hydroelectric projects on the Columbia River. The Company receives portions of the output of these projects in return for payment of the same proportion of the annual cost (including debt service). The Company's obligation to pay under these contracts continues whether or not the project is operable. In the event that a District's facilities were to become inoperable, the Company's recovery of insurance proceeds would not reimburse it fully for its charges under the contracts with the Districts. The Company has agreements with Bonneville Power Administration ("Bonneville") for the transmission of power to the Company's system for the duration of the power purchase contracts with the Districts.

The projects and significant statistics relating thereto are as follows:

	Hydroelectric Projects			
	Rocky Reach	Priest Rapids	Wanapum	Wells
Revenue Bonds				
Amount sold to finance projects	\$313,100,000	\$166,000,000	\$197,000,000	\$207,600,000
Currently outstanding	\$238,978,000	\$117,649,000	\$141,195,000	\$194,465,000
Company's current share of output, capacity and cost:				
Percentage of output	12.0%	19.7%	24.5%	31.5%
Capacity in megawatts, based on nameplate rating	142	156	204	244
Estimated current annual cost, including debt service(1)	\$ 2,400,000	\$ 2,700,000	\$ 3,400,000	\$ 4,600,000
Completion date	1971	1961	1964	1969
Date of long-term contract expiration	2011	2005	2009	2018

(1) Annual cost will change in proportion to the percentage of output allocated to the Company in a particular year.

The Company's percentage of the output of the Priest Rapids and Wanapum Projects may be reduced, at the option of the District and from time to time after advance notice and in accordance with a predetermined schedule, so that after August 31, 1983 the Company's percentage of the output may be as low as 13.9% and 18.7%, respectively. The Company's percentage of the output of the Wells Project may be reduced, after advance notice and in accordance with a predetermined schedule, which by 1988 could reduce the Company's percentage to 20.3% for the remainder of the contract term. Each of the Districts involved has been giving the required notices to accomplish these reductions.

Bonneville Power Administration

Bonneville acts as the marketing agent for sale of power generated at Federal power projects and also provides about 80% of the Pacific Northwest's transmission capacity. Until September 1, 1973, Bonneville was obligated to supply all of the Company's firm power requirements in excess of its other power resources and had, for some years, accounted for approximately 40% of the Company's total energy requirements. Under agreements with Bonneville and other utilities, the Company presently receives approximately 20 megawatts of firm power (approximately 1% of the Company's requirements) until July 1, 1980, at which time this amount of power will increase to 80 megawatts peak (68 mega-

watts average) until June 30, 1990. Bonneville is also a party to agreements under which the Company receives 10% of the output of the 800 megawatt Hanford Nuclear Generating Plant. The Company has been able to and may in the future be able to purchase or borrow surplus hydroelectric power from Bonneville to the extent such power is available, but it is unlikely, under existing law, that the Company will be able to enter into long-term power purchase contracts with Bonneville. In addition, the Company has an agreement with Bonneville, expiring in 1993, under which the Company can receive peaking capacity in amounts increasing to 550 megawatts in 1980.

As a result of a suit involving a contract with one of its potential industrial customers, Bonneville has produced and is currently circulating for comment an environmental impact statement which examines its role in the region's electric power supply system. Should Bonneville's role be altered pursuant to that examination the result could be increased costs of capacity, transmission and energy for the Company.

Other Resources

As a result of construction of storage dams in Canada pursuant to a treaty between that country and the United States, the Company is receiving as part of its share of the output of District projects substantial firm power benefits from storage releases. In addition, the Company under a series of purchase and exchange agreements is entitled to additional amounts of "Canadian Entitlement" power equalling approximately 257 megawatts of peak power and 104 megawatts of average power in 1978-1979. Thereafter the amounts decrease gradually to 29 megawatts of peak power and 16 megawatts of average power in 2002-2003.

Coordination and Pooling

The Company is a member of the Northwest Power Pool, which operates under a long-term Coordination Agreement with 15 other parties in the Pacific Northwest and is a member of the Western Systems Coordinating Council representing some 59 electric systems in 14 western states and British Columbia. The general purpose of these associations is to promote the reliable operation of the interconnected bulk power systems by the coordination of planning and operation. The Company is also one of seven investor-owned utilities which are parties to an Intercompany Pool Agreement providing for the sharing of surplus energy available to the members, reserves, and planning activities including those relating to planning for needed additional generating facilities.

The Company, together with Bonneville, several public agencies and investor-owned electric utilities, participates in an extra high voltage transmission intertie between the Pacific Northwest and Pacific Southwest. Among other benefits to the Company from the intertie are payments for its use by other utilities, diversity and economy exchanges with southwest utilities and system support during emergencies.

Future Resources

The Company is planning thermal power plant additions and has agreed to take major participations in thermal power plants being sponsored by others, as set forth below.

Units Under Construction or Planned	Location	Net Capacity MW	% of Company's Interest	Fuel	Company Cost to 11/30/78 (000s)	Earliest Date of Operation (A)	Estimated Cost of Company's Interest (000s) (A)	Estimated Cost Per Kw
Boardman	Boardman, Oregon	530	80 (B)	Coal	\$215,333	1980	\$400,000 to 430,000	\$ 940 to 1,010
Pebble Springs first unit	Arlington, Oregon	1260	40 (B)	Nuclear	93,222 (C)	1987	760,000 to 800,000	1,510 to 1,590
Pebble Springs second unit	Arlington, Oregon	1260	40 (B)	Nuclear	2,956 (C)	1989	640,000 to 680,000	1,270 to 1,350
Skagit first unit	Sedro Woolley, Washington	1288	30 (B)	Nuclear	66,872	1986	650,000 (D) to 700,000	1,680 to 1,810
Skagit second unit	Sedro Woolley, Washington	1288	30 (B)	Nuclear	—	1988	530,000 (D) to 580,000	1,370 to 1,500
Colstrip third unit	Colstrip, Montana	700	20 (B)	Coal	23,059	1983	250,000 to 300,000 (D) (E)	890 to 1,070
Colstrip fourth unit	Colstrip, Montana	700	20 (B)	Coal		1984		
WPPSS No. 3	Montesano, Washington	1240	10	Nuclear	27,846	1984	180,000 (D) to 200,000	1,450 to 1,610

- (A) Dates of operation and construction costs are based on earliest feasible availability and are subject to continuing review and revision as a result of rescheduling due to delays in obtaining requisite governmental authorizations, changes in customer usage forecasts, price changes, financing considerations (including possible inability to issue additional securities) and changes in regulatory requirements. Because of these and other factors, actual dates of operation may be later and actual costs may be in excess of present estimates. Estimated construction costs include allowance for funds used during construction and provisions for escalation and contingencies but are exclusive of fuel costs.
- (B) Arrangements for joint ownership of these projects are subject to continuing review by the Company and to continuing negotiations among other northwest utilities. The Company's ownership in any project may be changed as a result of such review and negotiations or as a result of other developments and accordingly the Company's share of costs of these projects may change.
- (C) Represents 47.1% of expenditures on the project. This includes amounts which would be reimbursable to the Company from additional joint owners that are expected to participate in the Pebble Springs Project. As a result of such participation the Company's ultimate ownership would be reduced to 40%. See text below.
- (D) Estimates based on data furnished to the Company by the principal sponsor of the units.
- (E) Excludes related transmission facilities for which the Company's cost is estimated at \$50,000,000.

Boardman Plant

Agreements have been executed under which the Company will own 80% of the Boardman Plant with the balance divided equally between two other utilities in the Pacific Northwest. The Company has received from the State of Oregon the necessary site certificate and approval of the ownership arrangements, and construction is proceeding on schedule.

Pebble Springs and Skagit Projects

The Company and three other northwest utilities have executed an agreement relating to the construction, ownership and operation of the Pebble Springs Nuclear Project, being sponsored by the Company, and the Skagit Nuclear Project, being sponsored by Puget Sound Power & Light Company ("Puget"). The Company's interest is expected to be 40% in the two units of the Pebble Springs Project and 30% in the two units of the Skagit Project. The construction, ownership and operation agreement is subject to the approval of the Public Utility Commissioner of Oregon, which has been obtained, and of the Washington Utilities and Transportation Commission, which has not yet been obtained.

Applications have been filed with the appropriate state and Federal agencies for the necessary site and construction permits, licenses and certificates for both Projects. There has been intervention by environmental and anti-nuclear groups in both the state and Federal proceedings on such applications. Federal NRC proceedings which may lead to a construction permit for the Pebble Springs Project are now in progress. The hearing portion of the proceedings is expected to resume during the summer of 1979 to finish the record in certain areas such as financial ability, alternate sites and need for power. Although a construction permit might be issued in the latter half of 1979, the limiting schedule is that associated with the state licensing process. Evidentiary hearings before the Oregon State Energy Facility Siting Council ("EFSC") were completed on December 6, 1978 but, following NRC reassessment of the summary of the 1975 Rasmussen report on nuclear power plant safety, have been reopened for additional testimony on the issue of risk. The Company cannot predict the content of a final order with respect to the Pebble Springs site, which is anticipated to be issued by EFSC during the third quarter of 1979. Any party to the proceeding may appeal the EFSC order to the Oregon Supreme Court. The Company cannot predict the basis for, or outcome of, any such appeal. If the certificate is not obtained or upheld the Company will consider alternate sites in the State of Washington and alternate sources of generation to the Pebble Springs Project.

The Skagit Project has been granted a site certificate by the State of Washington. Upon appeal by a local anti-nuclear group, such certificate has been upheld by a Washington State county court. Further appeals are anticipated. Puget has applied to the NRC for a limited work authorization permit ("LWA"), which allows preliminary site preparation, and for construction permits for the Project. A decision on the LWA and completion of hearings on the construction permits are not expected before the summer of 1979. The Secretary of Agriculture has determined under the Wild and Scenic Rivers Act that the Project can be licensed by the NRC if certain environmental measures are taken on that portion of the Skagit River included in the National Wild and Scenic Rivers System. Puget has proposed such measures for review and acceptance by the Secretary of Agriculture and is awaiting his response.

Before a construction permit for a nuclear project may be issued, a review of the seismic design basis for a reactor site is conducted by the NRC. Puget has received a letter from the NRC's consultant, the United States Geological Survey, confirming the adequacy of the Skagit site, with the confirmation subject to the final analysis which is currently under way.

Colstrip Project

The Company has entered into an agreement to own 20% of each of two 700 megawatt, minemouth, coal fired generating units sponsored by The Montana Power Company. The units will be located at the Colstrip generating plant in southeastern Montana. Currently, the Company is negotiating with a group of Montana cooperatives to sell up to 50% of its interest in each of the units.

There have been protracted hearings and appeals in connection with Montana Power Company's effort to obtain necessary permits under the Montana Major Facility Siting Act, Montana Clean Air Act and Federal Clean Air Act. The participants in the Colstrip Project were ordered to halt all site preparation until permits were obtained under the second and third of these Acts. The current licensing efforts of Montana Power include, among other things, challenging the applicability of the EPA regulations under the Federal Clean Air Act, appealing the redesignation to Class I (most restrictive of the area air quality classes defined by the Federal Clean Air Act) of the Northern Cheyenne Indian Reservation located 16 miles from the Colstrip site, and reapplying to the EPA with new pollution control equipment designs believed to be more effective than those incorporated in the present application.

Although Montana Power believes that it will ultimately prevail in securing necessary permits, it can be expected that intervenors opposed to the Colstrip Project will exercise every conceivable right of appeal in order to prevent construction of the project. Delays resulting from those actions will increase the cost of the project, as will any stricter permit requirements. It is possible that the Colstrip Project will not be constructed due to failure to receive all necessary regulatory approvals or due to excessively restrictive license conditions.

The Company has entered into an agreement to own 10% of a 1240-mw nuclear generating plant being sponsored by the Washington Public Power Supply System ("WPPSS"). WPPSS is a municipal corporation and operating agency of the State of Washington, consisting of a number of public utility districts and municipalities, which owns and operates generating and transmission facilities and markets the power therefrom. The plant being sponsored, known as WPPSS Nuclear Project No. 3, is planned for operation in 1984 at a site known as Satsop near the community of Montesano, Washington.

The Company has been advised by WPPSS that a Washington State site certificate and an NRC construction permit have been duly issued for the plant, and site preparation is proceeding.

General

If the future generating facilities discussed above (Boardman, Pebble Springs, Skagit, Colstrip and WPPSS) should be substantially delayed or cancelled as a result of litigation, delay in obtaining or failure to obtain necessary governmental authorizations or otherwise, including the case of the Boardman and Colstrip sites the inability to develop their coal reserves, the Company would have less energy and capacity available for sale to its customers than presently anticipated. In such event, the Company would attempt to increase its purchases of power and to find alternate sources of energy and capacity, but the Company might not be able to obtain sufficient energy and capacity to maintain the same degree of reliable service as provided in the past, which could result in consumer and public dissatisfaction and have an adverse effect on earnings. Should the above-mentioned contingencies result in the cancellation of a project the Company might incur substantial additional costs, including cancellation charges, since the Company must make significant investments and commitments in proposed plants prior to completion of licensing and other proceedings necessary for their construction and operation. Even if the generating facilities referred to above should be completed notwithstanding the matters referred to above, any delays in the presently scheduled completion dates resulting from such matters, or from other causes, would probably cause further increases in the costs of the projects.

Litigation

On June 14, 1978 two Oregon State Senators filed an action in the Circuit Court for Multnomah County, Oregon to require EFSC to conduct a hearing with respect to storage of spent fuel at Trojan alleging that spent fuel storage at Trojan constitutes permanent radioactive waste storage contrary to the statutes of Oregon and the premises upon which the site certificate was issued for Trojan, and that the Trojan site certificate should be revoked. Based upon an opinion of the Attorney General of the State of Oregon that such a hearing was not required under the laws of Oregon, and that storage of spent fuel at Trojan did not constitute permanent storage, EFSC had refused to hold that hearing. Although the Circuit Court has issued a judgment ordering EFSC to hold such a hearing, EFSC has appealed to the Court of Appeals.

On October 2, 1975 the Company was served in a suit brought in the Circuit Court of the State of Oregon for the County of Marion by seventeen residents who live in the vicinity of the Company's Bethel combustion turbines. The suit claimed that the Bethel combustion turbines violate state and county noise standards and are a nuisance and asked to have their operation enjoined. In addition, nine separate damage actions were brought in the same court by a number of residents, including some of those who are plaintiffs in the injunctive action, alleging damage to their persons and properties to the extent of \$3,675,000. On April 4, 1978 the plaintiffs withdrew their suits, but without prejudice if they refiled their suits within one year of that date. The Company has been advised that part or all these earlier law suits will be refiled, although a formal complaint has not yet been served on the Company.

Regulation

The Company is subject to regulation by the Public Utility Commissioner of Oregon (the "Commissioner"), who has the power, among other things, to establish rates and conditions of service, to regulate security issues and prescribe uniform systems of accounts to be kept by public utilities.

The Company is subject to the jurisdiction of the Federal Energy Regulatory Commission with respect to the transmission of electric energy in interstate commerce and the sale of electric energy at wholesale for resale, as well as with respect to licensed hydroelectric projects and certain other matters.

The Company is also subject to regulation by the Oregon Department of Energy ("DOE") with respect to contingency planning for energy supplies and curtailment of load. The Company is required to submit forecasts of its energy loads and resources in connection with the statutory duty of DOE to publish an annual forecast of the energy situation as it affects the State of Oregon. The second annual report of DOE indicates, among other things, that the future electric energy requirement in the State of Oregon is expected to be somewhat less than that presently forecast by the Company.

Oregon law provides that any city or town may fix for a period of not more than five years rates which may be charged by an electric utility therein. No city or town in which the Company furnishes service has attempted to fix a schedule of rates applicable to the Company under such law. In January 1979, the City of Portland issued a report which concludes that the residents of the City would not likely benefit if the City did exercise any right it may have to set rates.

OPERATING STATISTICS

Operating Revenues (thousands of dollars):	Twelve Months Ended					
	November 30, 1978	1977	1976	1975	1974	1973
Sales of Electric Energy:						
Residential	\$ 142,021	\$ 130,052	\$ 109,571	\$ 88,351	\$ 73,124	\$ 63,007
Commercial and Small Industrial ..	76,303	64,695	56,027	53,628(1)	41,881	36,691
Large Industrial	53,119	47,721	39,654	24,504(1)	20,888	16,806
Government and Municipal	5,465	4,464	4,030	3,687	3,320	3,095
Total Sales to Ultimate Customers	276,908	246,932	209,282	170,170	139,213	119,599
Sales for Resale	18,436	3,609	5,462	4,561	3,138	3,094
Total Sales of Electric Energy ..	295,344	250,541	214,744	174,731	142,351	122,693
Other Electric Revenues	2,442	2,532	3,043	5,211	3,650	2,140
Total Electric Operating Revenues	\$ 297,786	\$ 253,073	\$ 217,787	\$ 179,942	\$ 146,001	\$ 124,833
Energy Sales (thousands of kWh):						
Residential	5,288,914	5,120,266	5,024,199	4,982,113	4,700,025	4,684,806
Commercial and Small Industrial ..	3,377,197	3,175,297	3,045,522	3,169,091(1)	2,632,272	2,648,578
Large Industrial	3,245,757	3,484,780	3,438,963	2,699,326(1)	3,364,222	3,285,372
Government and Municipal	111,748	109,570	106,835	103,362	105,822	112,165
Total Sales to Ultimate Customers	12,023,616	11,889,913	11,615,519	10,953,892	10,802,341	10,730,921
Sales for Resale	1,193,404	44,010	393,948	529,753	599,723	829,392
Total Sales of Electric Energy ..	13,217,020	11,933,923	12,009,467	11,483,645	11,402,064	11,560,313
Number of Customers (12-month average):						
Residential	397,185	380,539	364,410	352,355	342,231	331,233
Commercial and Small Industrial ..	50,901	48,558	46,585	45,088(1)	43,406	41,189
Large Industrial	191	193	189	105(1)	197	190
Government and Municipal	1,394	1,415	1,369	1,374	1,344	1,109
Total Ultimate Customers	449,671	430,705	412,553	398,922	387,178	373,721
Sales for Resale	3	2	3	3	3	4
Total Electric Customers	449,674	430,707	412,556	398,925	387,181	373,725
Average Annual Use and Revenue Per Residential Customer:						
Use (kWh)	13,316	13,455	13,787	14,139	13,733	14,144
Revenue	\$357.57	\$341.76	\$300.68	\$250.74	\$213.67	\$190.22
Average Revenue Per kWh:						
Residential	2.69¢	2.54¢	2.18¢	1.77¢	1.56¢	1.34¢
Commercial and Small Industrial ..	2.26¢	2.04¢	1.84¢	1.69¢	1.59¢	1.39¢
Large Industrial	1.64¢	1.37¢	1.15¢	.91¢	.62¢	.51¢
Energy Generated and Purchased (thousands of kWh):						
Generated (net station output)						
Steam	1,706,589	4,583,914	1,141,020	157,303	108,844	167,154
Generated (net station output)						
Hydro	2,355,547	2,113,537	2,536,790	2,692,738	2,752,780	2,282,109
Generated (net station output)						
Combustion Turbines	34,340	91,686	6,366	12,537	43,082	160,519
Generated (net station output)						
Internal Combustion	(143)	(200)	(414)	227	(251)	(102)
Purchased and Net Interchange ..	10,189,186	5,935,645	9,214,556	9,613,287	9,465,240	9,806,092
Total Energy Generated and Purchased	14,285,519	12,724,582	12,898,318	12,476,092	12,369,695	12,415,772
Losses and Company Use	1,068,499	790,659	888,851	992,447	967,631	855,459
Energy Sold	13,217,020	11,933,923	12,009,467	11,483,645	11,402,064	11,460,313
Cost Per kWh of Total Energy Generated and Purchased (2) ....	.68¢	.59¢	.37¢	.42¢	.37¢	.31¢
Net System Hourly Peak in kW	2,597,000	2,519,000	2,310,000	2,225,000	2,321,000	2,492,000

(1) Due to rate structures in effect between December 23, 1974 and September 30, 1975, approximately 130 customers historically classified as "large industrial" were billed for all or a portion of such period on a rate schedule in the "commercial and small industrial" classification.

(2) Does not include fixed costs associated with Company generation.

The following information relating to Portland General Electric Company has been provided by Portland General Electric Company in their most recent Prospectus dated February 27, 1979. The information may not reflect actions or events subsequent to that date.

PORTLAND GENERAL ELECTRIC COMPANY
FINANCIAL STATEMENTS

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To Portland General Electric Company:

We have examined the consolidated balance sheet and statement of capitalization of Portland General Electric Company (an Oregon corporation) and subsidiaries as of December 31, 1977, and the related consolidated statements of income, retained earnings and changes in financial position for each of the five years ended December 31, 1977. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the financial position of Portland General Electric Company and subsidiaries as of December 31, 1977 and the results of their operations and the changes in their financial position for each of the five years ended December 31, 1977, in conformity with generally accepted accounting principles applied, except for the changes (with which we concur) in the methods of accounting for deferred income taxes as described in Note 1 (Income Taxes—paragraphs a and b), on a consistent basis during the periods.

Portland, Oregon,
February 15, 1978.

Arthur Andersen & Co.

PORTLAND GENERAL ELECTRIC COMPANY AND SUBSIDIARIES

Consolidated Statements of Retained Earnings

	12 Months Ended November 30, 1978 (unaudited)	12 Months Ended December 31				
		1977	1976	1975	1974	1973
		(Thousands of Dollars)				
Balance at Beginning of Period	\$ 88,975	\$108,146	\$ 97,901	\$ 84,626	\$ 77,452	\$ 71,980
Net Income	56,721	36,988	52,021	46,003	32,918	26,616
	<u>145,696</u>	<u>145,134</u>	<u>149,922</u>	<u>130,629</u>	<u>110,370</u>	<u>98,596</u>
Deduct						
Dividends Declared						
Common Stock	42,505	36,408	29,964	22,910	18,810	15,540
Preferred Stock	14,175	13,748	11,812	9,818	6,577	5,247
Other	—	—	—	—	357	357
	<u>56,680</u>	<u>50,156</u>	<u>41,776</u>	<u>32,728</u>	<u>25,744</u>	<u>21,144</u>
Balance at End of Period	<u>\$ 89,016</u>	<u>\$ 94,978</u>	<u>\$108,146</u>	<u>\$ 97,901</u>	<u>\$ 84,626</u>	<u>\$ 77,452</u>

The accompanying notes are an integral part of these statements.

PORTLAND GENERAL ELECTRIC COMPANY AND SUBSIDIARIES

147547

Consolidated Balance Sheets

	November 30, 1978 (Unaudited)	December 31, 1977
	(Thousands of Dollars)	
ASSETS		
Electric Utility Plant—Original Cost		
In Service		
Production	\$ 571,906	\$ 571,959
Transmission	127,889	127,788
Distribution	323,500	324,900
General	44,794	47,116
	1,068,089	1,071,763
Accumulated Depreciation (Note 1)	174,392	(145,929)
	893,697	925,834
Construction Work in Progress (Note 6)	492,247	264,030
Nuclear Fuel, Less Accumulated Amortization of \$16,278 and \$13,570 (Note 1)	72,307	55,668
	1,458,251	1,245,532
Other Property and Investments		
Headquarters Complex (Note 7)	—	49,168
Miscellaneous	11,940	6,847
	11,940	56,015
Current Assets		
Cash (Note 5)	9,445	5,068
Receivables		
Customer Accounts	19,198	19,176
Other Accounts and Notes	5,033	1,169
Reserve for Uncollectible Accounts	(504)	(565)
Estimated Income Tax Refunds	—	590
Estimated Unbilled Revenues (Note 1)	15,696	—
Materials and Supplies, at Average Cost		
Fuel Oil	6,781	12,747
Other	11,676	10,282
Property Taxes Applicable to Subsequent Periods	10,981	9,403
Prepayments	1,599	4,562
	79,905	62,432
Deferred Charges	12,780	10,860
	<u>\$1,562,876</u>	<u>\$1,374,839</u>

The accompanying notes are an integral part of these statements.

PORTLAND GENERAL ELECTRIC COMPANY AND SUBSIDIARIES

147547

Consolidated Balance Sheets

	November 30, 1978 (Unaudited)	December 31, 1977
	(Thousands of Dollars)	
CAPITALIZATION AND LIABILITIES		
Capitalization (See Accompanying Statements)		
Common Stock Equity	\$ 472,512	\$ 410,323
Cumulative Preferred Stock	151,500	154,500
Long-Term Debt	730,571	656,724
	<u>1,354,583</u>	<u>1,221,547</u>
Current Liabilities		
Long-Term Debt Due Within One Year (Note 4)	14,796	13,938
Current Sinking Fund—Preferred Stock (Note 3)	3,000	3,000
Bank Loans and Commercial Paper (Note 5)	64,000	45,000
Accounts Payable and Other Accruals	61,883	30,897
Wages and Salaries Payable	2,427	1,442
Dividends Payable	14,581	13,077
Accrued General Taxes	15,371	15,408
Accrued Income Taxes (Note 1)	2,705	490
Accrued Interest	7,325	10,395
	<u>186,088</u>	<u>133,647</u>
Other		
Deferred Income Taxes (Note 1)	16,532	14,784
Deferred Investment Tax Credits (Note 1)	3,606	2,572
Miscellaneous	2,067	2,289
Commitments and Contingencies (Note 7)	—	—
	<u>22,205</u>	<u>19,645</u>
	<u>\$1,562,876</u>	<u>\$1,374,839</u>

The accompanying notes are an integral part of these statements.

PORTLAND GENERAL ELECTRIC COMPANY AND SUBSIDIARIES

Consolidated Statements of Capitalization

	November 30, 1978 (unaudited)		December 31, 1977	
(Thousands of Dollars)				
Common Stock Equity (Note 3)				
Common stock, \$3.75 par value per share, 50,000,000 and 30,000,000 shares authorized, 25,977,508 and 22,237,337 shares outstanding	\$ 97,416		\$ 83,390	
Other paid-in capital	289,929		235,832	
Capital stock expense	(3,849)		(3,877)	
Retained earnings	89,016		94,978	
	<u>472,512</u>	34.9%	<u>410,323</u>	33.6%
Cumulative Preferred Stock (Note 3)				
\$100 par value per share, 2,500,000 shares authorized				
9.76% Series, 100,000 shares outstanding	10,000		10,000	
7.95% Series, 300,000 shares outstanding	30,000		30,000	
7.88% Series, 200,000 shares outstanding	20,000		20,000	
8.20% Series, 200,000 shares outstanding	20,000		20,000	
11.50% Series, 225,000 and 255,000 shares outstanding	22,500		25,500	
Current sinking fund on 11.50% Series	(3,000)		(3,000)	
8.875% Series, 270,000 shares outstanding	27,000		27,000	
\$25 par value per share, 6,000,000 shares authorized				
\$2.60 Series, 1,000,000 shares outstanding	25,000		25,000	
	<u>151,500</u>	11.2	<u>154,500</u>	12.6
Long-term Debt (Note 4)				
First mortgage bonds				
Maturing 1980 through 1985				
10½% Series due December 1, 1980	40,000		40,000	
10% Series due April 1, 1982	40,000		40,000	
3¾% Series due November 1, 1984	7,476		7,669	
9¾% Series due June 1, 1985	27,000		27,000	
Maturing 1986 through 1990—4¼- 5¼%	28,980		29,800	
Maturing 1991 through 1995—4½- 5½%	67,645		68,608	
Maturing 1996 through 2000—5%- 9% ⁸	190,147		115,534	
Maturing 2001 through 2005—7¾-11½% ⁸	142,000		142,000	
Maturing 2006 through 2007—8¾- 9½% ⁸	100,000		100,000	
Pollution control bonds, Port of St. Helens, Oregon, 7¾%, due 2006 (guaranteed by Company)	12,735		12,735	
Pollution control bonds, Port of Morrow, Oregon, 6¾%, due 2008 (guaranteed by Company)	\$34,000			
Less amount held by Trustee	(26,849)	7,151	—	
Mortgage note payable, 8½% due 2002, on headquarters complex	—		31,853	
Nuclear core notes	51,895		51,100	
Boardman loan agreement	30,000		5,000	
Other	1,149		213	
	<u>746,178</u>		<u>671,512</u>	
Unamortized premium and discount—net	(811)		(850)	
	<u>745,367</u>		<u>670,662</u>	
Long-term debt due within one year	(14,796)		(13,938)	
	<u>730,571</u>	53.9	<u>656,724</u>	53.8
Total capitalization	<u>\$1,354,583</u>	100.0%	<u>\$1,221,547</u>	100.0%

The accompanying notes are an integral part of these statements.

PORTLAND GENERAL ELECTRIC COMPANY AND SUBSIDIARIES

Consolidated Statements of Changes in Financial Position

SOURCE OF FUNDS	12 Months Ended November 30, 1978 (unaudited)	Twelve Months Ended December 31				
	1977	1976	1975	1974	1973	
(Thousands of Dollars)						
Current operations						
Income before cumulative effect of change in accounting policy	\$ 48,876	\$ 36,988	\$ 52,021	\$ 46,003	\$ 32,918	\$ 26,616
Non-cash charges (credits) to income						
Depreciation and amortization	36,198	39,548	24,708	13,890	12,060	11,290
Deferred income taxes—net	11,427	7,683	8,167	5,129	1,463	809
Reserve transferred to revenue	—	—	—	(1,989)	—	—
Allowance for equity funds used during construction	(8,375)	(5,089)	(4,360)	(6,317)	(2,964)	(3,960)
Other—net	2,804	(214)	138	134	258	138
	<u>90,930</u>	<u>78,916</u>	<u>80,674</u>	<u>56,850</u>	<u>43,735</u>	<u>34,893</u>
Cumulative effect of change in accounting policy (Note 1)	<u>7,845</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Funds provided internally	98,775	78,916	80,674	56,850	43,735	34,893
Proceeds from external financing						
Long-term debt	123,927	157,978	120,104	122,861	40,000	52,000
Preferred stock	—	27,000	27,375	30,000	—	40,000
Common stock	68,164	62,532	65,774	29,770	47,213	—
Short-term borrowings—net	14,000	(25,650)	(57,284)	32,143	35,677	32,614
Sale of headquarters complex (Note 7)	50,310	—	—	—	—	—
	<u>\$355,176</u>	<u>\$300,776</u>	<u>\$236,643</u>	<u>\$271,624</u>	<u>\$166,625</u>	<u>\$159,507</u>
APPLICATION OF FUNDS						
Gross utility construction	\$270,013	\$201,896	\$191,475	\$182,513	\$153,580	\$152,198
Reimbursement for prior years' construction expenditures	—	—	(18,940)	—	(22,800)	—
Allowance for equity funds used during construction	(8,375)	(5,089)	(4,360)	(6,317)	(2,964)	(3,960)
	<u>261,638</u>	<u>196,807</u>	<u>168,175</u>	<u>176,196</u>	<u>127,816</u>	<u>148,238</u>
Headquarters complex construction	149	9,259	21,342	18,982	—	—
Dividends declared	56,680	50,156	41,776	32,728	25,387	20,787
Retirement of long term-debt and preferred stock	44,824	54,156	4,480	40,124	3,152	3,299
Miscellaneous—net	4,859	(11)	2,812	1,219	(1,920)	1,751
Increase (decrease) in working capital excluding current maturities, sinking funds, and short-term borrowings						
Cash	5,852	(2,966)	(3,675)	6	(492)	740
Receivables	4,119	(3,981)	5,802	7,404	593	3,530
Estimated unbilled revenues	15,696	—	—	—	—	—
Materials and supplies	(4,036)	7,209	(13,308)	7,309	13,850	4,008
Accounts payable and accruals	(29,999)	(13,171)	7,886	(13,824)	(2,903)	(24,066)
Other—Net	(4,606)	3,318	1,353	1,480	1,142	1,220
	<u>\$355,176</u>	<u>\$300,776</u>	<u>\$236,643</u>	<u>\$271,624</u>	<u>\$166,625</u>	<u>\$159,507</u>

The accompanying notes are an integral part of these statements.

Note 1. Summary of Accounting Policies

The Company's accounting policies conform to generally accepted accounting principles for regulated public utilities and are in accordance with the accounting requirements and the ratemaking practices of the regulatory authorities having jurisdiction.

Consolidation Principles—The financial statements include the accounts of the Company and its wholly owned subsidiaries. Intercompany balances and transactions have been eliminated.

Revenues—Prior to 1978, the Company followed the policy of recording revenues as customers' meters were read, principally on a cycle basis throughout each month. This policy resulted in revenue being earned but not billed at the end of an accounting period. The changes in unbilled revenues from year to year were generally not significant. Due to the accelerating increase in rate levels and costs, the disparity between billed revenues and costs as a result of this method of accounting has increased. Accordingly, effective January 1, 1978, the Company changed to a method of accounting to accrue the amount of estimated unbilled revenues for services provided to the month end to more closely match revenues and costs. The cumulative effect of the change on years prior to 1978 is \$16,348,000 less income taxes of \$8,503,000.

Allowance for Funds Used During Construction (ADC)—ADC represents the net cost for the period of construction of borrowed funds used for construction purposes and a reasonable rate on other funds when so used. ADC is capitalized as part of the cost of utility plant and is credited to income but does not represent cash earnings. Effective January 1, 1977 the Federal Energy Regulatory Commission (FERC) ordered that the allowance for borrowed funds used during construction be credited to interest charges and that the allowance for other (equity) funds used during construction be credited to income. For comparative purposes, ADC has been reclassified in the 1973 through 1976 consolidated statements of income and changes in financial position. The amount of ADC capitalized has varied from year to year, depending principally upon the amount of construction program expenditures. The allowance for borrowed funds used during construction is calculated on a pre-tax basis. ADC is not capitalized for income tax purposes. Effective November 15, 1977, the maximum rate (currently 10.03%) under the FERC order was adopted for construction expenditures relating to the Pebble Springs, Skagit and Colstrip projects. A 7% rate is used on other construction costs except nuclear fuel for the Trojan nuclear plant which is capitalized at the actual interest rate of the nuclear core notes.

Depreciation—Depreciation provisions are based upon the estimated service lives of the various classes of plant and property in service. Depreciation on generating plants placed in service after 1975, transportation equipment and the headquarters complex is computed on a straight-line basis. Depreciation on the remaining plant and property in service, including substantial hydroelectric facilities, is computed on the 5% sinking fund method. The Company's sinking fund method yields depreciation substantially the same as straight-line depreciation. Depreciation expense as a percent of the related average depreciable plant and property in service balances approximated 2.3% in 1973 and 1974, 2.4% in 1975, 2.8% in 1976 and 3.0% in 1977 and for the twelve months ended November 30, 1978.

Depreciation provisions relating to the Trojan nuclear plant (placed in service during May 1976) include estimated decommissioning costs of approximately \$17,000,000. Such provisions are recognized in current rates to customers. The Company and the Public Utility Commissioner of Oregon (Commissioner) are currently reviewing the decommissioning costs estimate and it is expected that any increase in such costs will be provided for in future applications to the Commissioner for rate increases.

The cost of renewals and replacement of property units are charged to plant. Repairs and maintenance are charged to expense. Property units retired, other than land, are charged to accumulated depreciation.

Amortization of Nuclear Fuel—The cost of nuclear fuel is amortized to expense based on the quantity of heat produced for the generation of electric energy. Amortization for 1976, 1977 and for the twelve months ended November 30, 1978 was based on a net salvage value of zero. As a result of Federal energy proposals and other indications of a national policy to provide for permanent storage rather than reprocessing of spent fuel, the Company is currently evaluating the cost of permanent storage. The Company expects that provisions will be made for such costs in future applications to the Commissioner for rate increases.

Retirement Plan—The Company has a noncontributory retirement plan for its employees. Total plan costs, of which approximately 50% are capitalized to construction, were \$1,479,000, \$1,561,000,

\$1,840,000, \$2,758,000 and \$3,162,000 for the years 1973 through 1977 and \$3,259,000 for the twelve months ended November 30, 1978. The plan was amended effective July 1, 1978 and at January 1, 1978 (latest actuarial valuation date) the remaining unfunded liability for prior service costs was estimated to be \$14,000,000, and is being amortized over periods not in excess of 30 years. The actuarially computed value of vested benefits at January 1, 1978 exceeded the actuarial value of the plan assets by approximately \$3,000,000. Neither the unfunded liability for prior service costs nor the excess of vested benefits over actuarial value of the plan assets has changed materially at November 30, 1978.

Income Taxes—Except for the items of deferred tax discussed below, the Company follows flow-through accounting for reductions of income taxes resulting from various provisions in the tax laws, primarily accelerated depreciation and allowance for funds used during construction. This has the effect of passing such reductions on to the Company's customers. Deferred income taxes are provided for timing differences between financial and income tax reporting to the extent permitted by the Commission for ratemaking purposes.

(a) Deferred income taxes—capitalized interest. Effective January 1, 1975, deferred taxes were provided for the timing difference relating to interest expense included in construction work in progress. The deferral is credited to utility plant and amortized to income over the life of the related properties through reduced depreciation expense. As a result, taxes on income increased \$6,529,000, \$4,013,000, and \$4,433,000 for the years 1975-1977 and \$6,704,000 for the twelve months ended November 30, 1978. This accounting change was considered in establishing rates charged to customers after January 1, 1975; accordingly, there is no effect on prior periods.

(b) Deferred income taxes—liberalized depreciation. Asset Depreciation Range (ADR) is utilized in computing tax depreciation on the Trojan nuclear plant, which was placed in service for income tax purposes during December 1975. Effective September 1, 1975, the tax reductions resulting from the use of ADR lives as compared with lives under previous methods were deferred, and as a result, taxes on income increased \$630,000, \$2,787,000 and \$2,409,000 for the years 1975-1977 and \$4,920,000 for the twelve months ended November 30, 1978.

(c) Deferred income taxes—accelerated amortization. Tax reductions attributable to the excess of 5-year amortization of defense facilities over depreciation computed substantially on the sum of the years digits method have been deferred and are being restored to income over a 25-year period. Amortization of the deferral for the years 1973-1977 and for the twelve months ended November 30, 1978 was \$541,000 per year.

(d) Deferred income taxes—nonutility operations. Tax reductions resulting from timing differences between financial and income tax reporting, primarily depreciation, exploration and development costs and capitalized interest, are deferred.

(e) Investment tax credits. Tax reductions resulting from investment tax credits are deferred and amortized to income over a 30-year period, the approximate life of the related properties. The Company presently estimates that it has approximately \$44,000,000 of investment tax credit carry-forwards available for application against any future Federal Income tax payments. These carry-forwards expire principally in 1982.

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	12 Months Ended November 30, 1978	Twelve Months Ended December 31				
		1977	1976	1975	1974	1973
		(Thousands of Dollars)				
Utility						
Currently payable						
Federal	\$ (8,131)	\$ (1,150)	\$ (1,706)	\$ (3,663)	\$ (2,202)	\$ 1,121
State	(1,285)	105	(21)	26	(91)	289
Deferred income taxes	11,227	6,385	6,259	6,619	(541)	(541)
Investment tax credit adjustments	989	(334)	(22)	(1,489)	2,003	1,350
Total utility	<u>2,800</u>	<u>5,006</u>	<u>4,510</u>	<u>1,493</u>	<u>(831)</u>	<u>2,219</u>
Nonutility						
Currently payable						
Federal	2,522	(379)	(103)	269	218	67
State	—	—	61	47	35	25
Deferred income taxes	(789)	1,632	1,930	—	—	—
Total nonutility	<u>1,733</u>	<u>1,253</u>	<u>1,888</u>	<u>316</u>	<u>253</u>	<u>92</u>
	<u>4,533</u>	<u>6,259</u>	<u>6,398</u>	<u>1,809</u>	<u>(578)</u>	<u>2,311</u>
Cumulative effect to January 1, 1978 of accruing estimated unbilled revenues currently payable						
Federal	7,242	—	—	—	—	—
State and local	1,261	—	—	—	—	—
Total cumulative effect	<u>8,503</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Total income tax expense	<u>\$13,036</u>	<u>\$ 6,259</u>	<u>\$ 6,398</u>	<u>\$ 1,809</u>	<u>\$ (578)</u>	<u>\$ 2,311</u>
Computed Tax Based on Statutory Federal Income Tax Rate (48%) Applied to Income Before Income Taxes and Cumulative Effect of Accounting Change	\$25,637	\$20,758	\$28,041	\$22,950	\$15,523	\$13,885
Less reductions in taxes resulting from:						
Deferred income taxes	(10,262)	(7,888)	(8,471)	(6,592)	697	621
Excess tax over book depreciation	17,050	10,539	18,029	13,893	4,662	3,668
Allowance for funds used during construction	12,899	7,733	7,398	10,828	8,162	5,323
Gain on sale of Headquarters Complex	(4,459)	—	—	—	—	—
Items capitalized for books and expensed for tax	5,080	3,621	3,520	2,503	1,968	1,537
Other minor items	796	494	1,167	509	612	425
Total income tax expense	<u>\$ 4,533</u>	<u>\$ 6,259</u>	<u>\$ 6,398</u>	<u>\$ 1,809</u>	<u>\$ (578)</u>	<u>\$ 2,311</u>
Company's Effective Rate	8.5%	14.5%	11.0%	3.8%	(1.8%)	8.0%

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Note 3. Common and Preferred Stock

The following changes occurred in the common stock, cumulative preferred stock and other paid-in capital accounts (dollar amounts in thousands).

	Common Stock		Cumulative Preferred Stock				Other Paid-in Capital
	Number of Shares	\$3.75 Par Value	Number of Shares	\$100 Par Value	Number of Shares	\$25 Par Value	
Outstanding.							
December 31, 1972	10,500,000	\$39,375	400,000	\$ 40,000	—	\$ —	\$ 72,183
Sales of stock	—	—	400,000	40,000	—	—	—
Outstanding.							
December 31, 1973	10,500,000	39,375	800,000	80,000	—	—	72,183
Sales of stock	3,000,000	11,250	—	—	—	—	35,963
Outstanding.							
December 31, 1974	13,500,000	50,625	800,000	80,000	—	—	108,146
Sales of stock	2,000,000	7,500	300,000	30,000	—	—	22,270
Outstanding.							
December 31, 1975	15,500,000	58,125	1,100,000	110,000	—	—	130,416
Sales of stock	3,559,909	13,350	—	—	1,000,000	25,000	54,799
Redemption of stock	—	—	(15,000)	(1,500)	—	—	—
Outstanding.							
December 31, 1976	19,059,909	71,475	1,085,000	108,500	1,000,000	25,000	185,215
Sales of stock	3,177,428	11,915	270,000	27,000	—	—	50,617
Redemption of stock	—	—	(30,000)	(3,000)	—	—	—
Outstanding.							
December 31, 1977	22,237,337	83,390	1,325,000	132,500	1,000,000	25,000	235,832
Sales of stock	3,740,171	14,026	—	—	—	—	54,097
Redemption of stock	—	—	(30,000)	(3,000)	—	—	—
Outstanding.							
November 30, 1978	25,977,508	\$97,416	1,295,000	\$129,500	1,000,000	\$25,000	\$289,929

Cumulative preferred stock outstanding is redeemable at the option of the Company as follows: 9.76% Series at \$110 to November 1, 1980, 7.95% Series at \$105 to July 1, 1982, 7.88% Series at \$106 to April 1, 1983, 8.20% Series at \$106 to July 1, 1983, 11.50% Series at \$111 to January 15, 1980, 8.875% Series at \$108 to April 30, 1979 and \$2.60 Series at \$30 to April 1, 1981. Each Series is redeemable at reduced amounts after such respective dates. The 11.50% Series Cumulative Preferred Stock has an annual sinking fund requirement sufficient to retire a minimum of 15,000 shares at \$100 per share each January 15. The Company has the option to retire each year an additional 15,000 shares at \$100 per share. This option was exercised for the January 15, 1979 retirement.

At November 30, 1978, the Company had reserved 1,926,299 authorized but unissued shares of common stock for issuance under its dividend reinvestment and common stock purchase plan and 100,423 authorized but unissued shares of common stock for issuance under its employee stock purchase plan.

Note 4. Long-Term Debt

The Indenture securing the Company's first mortgage bonds constitutes a direct first mortgage lien on substantially all utility property, with the exception of the Boardman coal plant, and franchises other than expressly excepted property.

The Company has an agreement to finance its cost of Trojan nuclear fuel up to \$52,000,000. Under the agreement, a trust issues its short-term notes supported by a bank's irrevocable letter of credit. The nuclear core notes are repaid as the nuclear fuel is consumed. The interest cost of the nuclear core notes is the current rate in effect for the trust's short-term notes plus a fee of 1½% per annum on the average daily outstanding amount of such notes. During 1977, the agreement was renegotiated in order to obtain a long-term arrangement (Note 5). At November 30, 1978 and December 31, 1977, the estimated current portion (\$11,463,000 and \$11,100,000) of such notes is included in long-term debt due within one year. The maturity of the remaining balance (\$40,432,000 and \$40,000,000) is dependent upon actual operations of the Plant.

To finance a portion of the Company's share of costs for the Boardman coal plant, The Boardman Power Company, a wholly-owned subsidiary of the Company, entered into a loan agreement with a group of banks. Loans under the agreement are secured by a portion of the Plant and are guaranteed by the Company. As Plant construction expenditures are made, the subsidiary can borrow, repay and reborrow up to a maximum of \$200,000,000. The interest rate on borrowings is equal to 117% of the prime commercial rate in effect from time to time. There is a commitment fee of $\frac{1}{2}$ of 1% per annum on the unused commitment, but there is no requirement to maintain compensating cash balances. Loans outstanding on December 31, 1981 or completion of the project, whichever is earlier, are to be paid in six substantially equal semi-annual installments.

The following principal amounts of long-term debt become due for redemption through sinking funds and maturities during the periods from November 30, 1978 through November 30, 1983.

	Long-term Debt	
	Sinking Funds	Maturities
	(Thousands of Dollars)	
1979	\$3,333	\$ —
1980	3,874	—
1981	3,874	40,000
1982	9,041	50,000
1983	9,541	10,000

The Indenture provides that sinking funds in the amounts of \$1,235,000 in 1979, \$1,488,000 in 1980 and 1981, \$2,488,000 in 1982 and \$2,988,000 in 1983 may be satisfied by pledging available additions equal to 166 $\frac{2}{3}$ % of the sinking fund requirement.

Note 5. Short-Term Borrowings

	November 30, 1978	December 31, 1977
	(Thousands of Dollars)	
Bank loans(a)		
Domestic	\$14,000	\$15,000
Foreign	50,000	30,000
Commercial paper(b)	—	—
Total(c)	<u>\$64,000</u>	<u>\$45,000</u>

(a) Under a credit agreement with domestic banks, expiring March 31, 1981, the Company may borrow, repay and reborrow up to a maximum of \$150,000,000. The unused commitment at November 30, 1978 and December 31, 1977 was \$136,000,000 and \$135,000,000.

The credit agreement provides for an interest rate on borrowings equal to 107% of the prime commercial rate in effect from time to time and a commitment fee of $\frac{1}{2}$ of 1% per annum on the unused commitment. It is understood that compensating cash balances equal to 7% of the commitment will be maintained under the credit agreement; however, there are no legal restrictions as to the withdrawal of such balances.

In addition, the Company has a revolving credit agreement with foreign banks, expiring on October 31, 1980, under which it may borrow from time to time up to a maximum of \$50,000,000. The unused commitment at December 31, 1977 was \$20,000,000. The interest rate on borrowings is $\frac{3}{4}$ of 1% above the London interbank offered rate at the time of each borrowing. There is a commitment fee of $\frac{1}{2}$ of 1% per annum on the unused commitment if utilization is less than 50% and $\frac{3}{8}$ of 1% if utilization is 50% or higher.

(b) The Company has issued commercial paper from time to time. In order to provide backup support for the commercial paper, a sum equal to the amount of commercial paper outstanding at any time will not be borrowed under the domestic credit agreement.

(c) Aggregate short-term borrowings.

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	November 30, 1978	December 31, 1977
	(Thousands of Dollars)	
Maximum amount outstanding (12 months)	\$100,000	\$154,300
Average daily amount outstanding (12 months) . . .	\$ 68,682	\$ 70,327
Weighted average daily interest rate* (12 months) .	9.5%	6.8%
Weighted average interest rate at end of period* . . .	12.0%	8.5%

*The interest rates are determined by using the rates of such borrowings excluding the effect of the fees and compensating cash balances discussed above.

Note 6. Financing and Construction

The Company's utility construction program, which is subject to continuing review and adjustment, is estimated in the range of \$750,000,000 to \$800,000,000 for the years 1979-1981 (including ADC and nuclear fuel). This estimate is based on the Company's present plans for joint ownership of certain future generating facilities (see table page 32).

The Company presently expects that for the above three-year period approximately 85% to 90% of its cash construction costs will require external financing including the sale of equity and debt securities. The issuance of additional preferred stock or first mortgage bonds requires the Company to meet certain earnings coverage provisions. The ability to meet these provisions is primarily dependent upon the adequacy and timeliness of future rate relief.

In the absence of adequate and timely rate relief, the Company will consider reducing its construction program through the sale of partial interests in future generating units and/or the delay in the construction of future facilities, which could therefore impair the quality and reliability of service to its customers.

The utility construction program includes the Company's share of the Pebble Springs, Skagit and Colstrip generating projects. At November 30, 1978, \$181,000,000, representing the Company's share of these projects, is included in construction work in progress. These projects are in various stages of the licensing process and have experienced significant delays due to regulatory proceedings and litigation relating to Federal and state laws and regulations, including environmental considerations. Although the outcome of regulatory proceedings and litigation cannot be predicted with certainty, management presently believes it is probable that the three projects will ultimately be licensed.

If the necessary licensing in a particular project cannot be obtained, subject to regulatory approval, the Company would either attempt to transfer the project to another location and obtain construction approval and/or amortize any abandonment loss for accounting and ratemaking purposes over an approved length of time.

Note 7. Commitments and Contingencies

(a) Utility construction costs for the year 1979 are presently estimated at \$300,000,000. Purchase commitments outstanding, relating principally to construction, totaled approximately \$400,000,000 at November 30, 1978. Cancellation of the purchase commitments could result in substantial cancellation charges. Other substantial commitments have been made under long-term agreements to provide nuclear fuel for the Trojan nuclear plant and proposed additional nuclear plants and to provide coal for the Boardman coal plant. Such agreements may be terminated and would require payment of termination charges.

(b) The Company has entered into long-term power purchase contracts, expiring from 2005 to 2018, with certain public utility districts in the state of Washington. Power purchase prices are based on the Company's proportionate share of the operating and debt service costs of each project whether or not operable. Significant statistics regarding these projects are as follows:

	Hydroelectric Projects			
	Rocky Reach	Priest Rapids	Wanapum	Wells
Revenue Bonds				
Amount sold to finance projects	\$313,100,000	\$166,000,000	\$197,000,000	\$207,600,000
Currently outstanding	\$238,978,000	\$117,649,000	\$141,195,000	\$194,465,000
Company's current share of output, capacity and cost				
Percentage of output	12.0%	19.7%	24.5%	31.5%
Capacity in megawatts, based on nameplate rating	142	156	204	244
Estimated current annual cost, including debt service (1)	\$ 2,400,000	\$ 2,700,000	\$ 3,400,000	\$ 4,600,000
Completion date	1971	1961	1964	1969
Date of long-term contract expiration	2011	2005	2009	2018

(1) Annual cost will change in proportion to the percentage of output allocated to the Company in a particular year.

Megawatts available to Company (nameplate rating)	746
Estimated current annual operating and debt service costs	\$13,100,000

(c) The minimum annual rental commitment of the Company under noncancelable leases at November 30, 1978 is as follows:

	Basic	Non-capitalized Financing Leases	Sublease Rentals (Credit)	Total
	(Thousands of Dollars)			
1979	\$ 4,700	\$ 5,383	\$(1,157)	\$ 8,928
1980	6,240	5,382	(1,149)	10,469
1981	6,223	5,206	(1,104)	10,317
1982	6,208	5,072	(1,056)	10,218
1983	6,060	4,463	(978)	9,507
Remainder	195,721	67,821	(4,132)	259,464
Total	\$225,152	\$93,327	\$(9,576)	\$308,903

On September 11, 1978, the Company entered into a sale/leaseback of its headquarters complex with a third party. The Company will lease the headquarters complex from the lessor for a basic lease term of 40 years with two 10-year and one 5-year renewal options at the end of the basic lease term. The Company has the option at the end of the 25th, 30th, 35th, and 40th years of the lease to repurchase the headquarters complex for the then fair market value of the property as encumbered by the Company's leasehold interest and lease renewal options. In addition, at the end of the 40-year basic lease term, the Company must offer to purchase the headquarters complex for \$15,000,000. This offer is rejectable by the owner. The mortgage on the headquarters complex, amounting to \$31,737,000, has been assumed by the lessor and is guaranteed by the Company. The lease of the headquarters complex represents \$201,277,000 of basic lease commitments and \$9,576,000 of sublease rental credits for a net rental commitment of \$191,701,000.

During 1973 and 1974, combustion turbines located at three generating plants were leased for 25-year periods. These lease commitments represent \$87,471,000 of non-capitalized financing leases. In the event of certain contingencies the Company may be required to purchase the turbines at a maximum price of \$57,911,000 in 1978 and at decreasing amounts thereafter. Such purchase would reduce the \$87,471,000 lease commitment to the extent of lease payments then remaining. At the expiration of each lease the Company has an option to renew the lease for five years at the then fair rental value or

to purchase the turbines at the then fair market value. Substantially all other leases with renewal options provide for negotiation of the rental amount at the time such options are exercised. Other leases with purchase options are not material.

In compliance with the reporting requirements of the Securities and Exchange Commission, certain leases presently accounted for as non-capitalized financing leases meet the criteria for classification and accounting as capital leases. If such leases had been accounted for as capital leases, assets would have increased by \$48,997,000 and \$46,794,000 and liabilities would have increased by \$53,274,000 and \$51,995,000 at December 31, 1977 and November 30, 1978. The resulting net increase in expenses would have been \$1,117,000 and \$1,034,000 for the twelve months ending December 31, 1977 and November 30, 1978.

For ratemaking purposes disclosure of the increase in assets had non-capitalized financing leases been capitalized is not meaningful since only assets used as a basis for ratemaking are relevant to rate-regulated enterprises. These disclosures do not relate to past or future cash flows and were not considered by the Commissioner in determining rates charged to customers.

(d) Under certain circumstances the Company may be required at some future date, to provide compensation to a bank for the taxable status of interest it received on short-term pollution control bonds issued by the Port of St. Helens, Oregon, and guaranteed by the Company. Such compensation, if payable, is presently estimated to be approximately \$3,000,000 before income tax offsets. The short-term pollution control bonds then outstanding were refunded during 1976 by the issuance of \$12,735,000 of long-term pollution control bonds.

Note 8. Supplementary Income Information

	12 Months Ended November 30, 1978	Twelve Months Ended December 31				
		1977	1976	1975	1974	1973
		(Thousands of Dollars)				
Taxes other than income taxes, charged directly to tax expense						
Property	\$17,540	\$17,802	\$15,897	\$12,784	\$10,790	\$ 9,700
Payroll	1,922	1,645	1,306	1,061	807	692
City taxes and license fees	4,531	4,003	3,370	2,779	2,446	2,131
Other	469	501	399	333	279	223
Total	<u>\$24,462</u>	<u>\$23,951</u>	<u>\$20,972</u>	<u>\$16,957</u>	<u>\$14,322</u>	<u>\$12,746</u>
Rentals charged to operating expense accounts*						
Basic rentals	\$ 2,735	\$ 1,838	\$ 1,231	\$ 1,141	\$ 991	\$ 960
Contingent rentals**	704	429	159	160	166	141
Noncapitalized financing leases ..	5,048	5,110	4,595	4,376	2,869	455
Total	<u>\$ 8,487</u>	<u>\$ 7,377</u>	<u>\$ 5,985</u>	<u>\$ 5,677</u>	<u>\$ 4,026</u>	<u>\$ 1,556</u>
Depreciation and amortization						
Utility	\$31,418	\$28,159	\$22,112	\$13,890	\$12,060	\$11,290
Nonutility	830	415	—	—	—	—
Amortization of nuclear fuel	3,950	10,974	2,596	—	—	—
Total	<u>\$36,198</u>	<u>\$39,548</u>	<u>\$24,708</u>	<u>\$13,890</u>	<u>\$12,060</u>	<u>\$11,290</u>

*See Note 7(c) for details concerning the Company's long-term lease commitments.

**Based on kwh of gross generation at certain Company hydroelectric projects.

The amounts for maintenance and repairs, depreciation and taxes other than income taxes included in the Statements of Income but not set out separately therein are not material. The amounts of amortization of intangible assets and advertising costs are not material.

Note 9. Quarterly Financial Data (Unaudited)

The following quarterly information is presented for years 1976 and 1977 and for the first three quarters of 1978.

Quarters Ended	Operating Revenues	Operating Income	Net Income	Earnings per Average Common Share	Pro Forma Net Income*	Pro Forma Earnings per Average Common Share*
(Thousands of Dollars)						
March 31, 1976	\$59,049	\$26,778	\$22,130	\$1.22	\$21,547	\$1.18
June 30, 1976	51,098	20,076	13,357	.59	12,130	.52
September 30, 1976	46,542	13,754	3,917	.04	4,746	.09
December 31, 1976	61,098	22,069	12,617	.50	14,913	.62
March 31, 1977	70,012	22,667	13,802	.56	12,719	.50
June 30, 1977	59,289	16,940	8,432	.23	7,189	.17
September 30, 1977	55,494	14,890	6,863	.15	7,665	.19
December 31, 1977	68,278	18,630	7,891	.19	10,229	.30
March 31, 1978	80,895	30,184	28,544	1.12	—	—
June 30, 1978	71,449	19,029	10,388	.28	—	—
September 30, 1978	69,725	19,885	12,051	.33	—	—

*Pro forma net income and earnings per average common share if the accounting change for unbilled revenues were applied retroactively. (See Note 1—*Revenues*).

Note 10. Replacement Cost Information (Unaudited)

In accordance with the reporting requirements of the Securities and Exchange Commission (SEC) the Company is required to disclose the current "replacement cost" of certain assets, the accumulated replacement cost depreciation on such assets and the amount of annual depreciation based on replacement cost. SEC staff accounting bulletins have been issued providing guidelines as to the preparation of the data required and the working committees of the Edison Electric Institute have provided its members with general guidelines. The Company has used the information available from such bulletins and guidelines in preparing the required data. The Company believes that the required data to be disclosed is not necessarily appropriate in determining the impact of inflation on a regulated utility.

The Company cautions the reader of the imprecise nature of the replacement cost data and of the many subjective judgments required in the replacement cost estimation.

The replacement cost information does not purport to represent the current value or reproduction costs of the assets or the amounts which could be realized if the assets were sold. Rather, replacement cost generally represents the estimated amount which would be required to replace, at today's prices, the productive capacity of the existing assets with assets of a modern type including additional equipment or facilities presently required under environmental regulations. The Company is unable to forecast how existing plants would be replaced because environmental considerations and other factors are so uncertain. Therefore, replacement cost information has been estimated assuming replacement of existing facilities with similar facilities.

Replacement cost of electric production plant was calculated by pricing existing kilowatt capacity at the cost per kilowatt of recently constructed production facilities indexed to December 31, 1977, by using the Handy-Whitman Index of Public Utility Construction Cost (Pacific Coast Division). The cost per kilowatt of recently constructed production facilities includes the environmental costs that would be required if the production facilities were rebuilt.

Replacement cost of transmission, distribution and general plant was calculated by indexing the book costs at December 31, 1977, by using the Handy-Whitman Index, Marshall-Swift, U.S. Bureau of Labor Cost Trend Indices or other appropriate indices. Approximately \$410,000,000 of original cost of the Company's plant is by definition excluded from replacement cost calculations because it does not fit the definition of "productive capacity" (for example, construction work in progress) or because it is non depreciable land or for other reasons.

Because the cost of the Company's nuclear fuel and inventory of fuel oil will be recovered through the ratemaking process and its inventories other than fuel are used primarily in new plant construction the guidelines do not require the calculation of their replacement cost.

Accumulated replacement cost depreciation was calculated by applying the ratio of the book reserve to book costs by functional classifications to the December 31, 1977 replacement cost of utility plant assuming the replacement cost properties had the same attained age as the book cost.

Replacement cost depreciation was calculated by applying the average life straight-line rates for functional classifications to replacement costs. Although the Company calculates depreciation on historical costs on both the straight-line and 5% sinking fund methods the sinking fund method yields depreciation substantially the same as the straight-line method.

The SEC cautioned investors and analysts on the simplistic use of replacement cost data. The Company cautions against the use of these data as the basis for adjusting earnings. The Company's operations, including substantially all of its revenues, are subject to regulation by the Commissioner. It is the practice of the Commissioner to authorize rates at a level to allow the Company to recover its actual investment in facilities used in providing utility service. Therefore, when facilities are replaced at costs higher than the cost of existing facilities, rates can be changed to cover the increased costs associated with the additional investment.

The consolidated replacement cost information required by the SEC on a comparative basis with historical cost is shown below:

December 31, 1977		
	Estimated Replacement Cost	Actual Historical Cost
	(Millions of Dollars)	
Plant investment subject to replacement cost disclosure	\$2,006	\$1,050
Other plant investment (including construction work in progress)	410	410
	<u>2,416</u>	<u>1,460</u>
Accumulated depreciation and amortization	315	160
Net plant investment	<u>\$2,101</u>	<u>\$1,300</u>
Depreciation and amortization for the year ended	<u>\$ 74</u>	<u>\$ 41</u>

POWER SALES AGREEMENT
Executed by
CITY OF PORTLAND, OREGON
and
PORTLAND GENERAL ELECTRIC COMPANY

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POWER SALES AGREEMENT

147547

Executed by
CITY OF PORTLAND, OREGON
and

PORTLAND GENERAL ELECTRIC COMPANY

THIS AGREEMENT, entered into as of the 12th day of April, 1979, is between the CITY OF PORTLAND ("City"), a municipal corporation of the State of Oregon and PORTLAND GENERAL ELECTRIC COMPANY ("Purchaser"), a corporation organized and existing under the laws of the State of Oregon.

RECITALS

City is authorized under its Charter to enter into contracts with privately-owned utilities for the transmission and sale of the capacity of, and electric power generated by, hydroelectric power generating facilities owned by City.

City has applied to the Federal Energy Regulatory Commission ("FERC") for a license to construct and to operate Project No. 2821, designated as the Portland Hydroelectric Project on the Bull Run River in Multnomah and Clackamas Counties, Oregon ("the Project"), by adding to the existing City-owned dams forming part of its Bull Run Water Supply System the structures, fixtures, equipment and hydroelectric power generating facilities for transmission and sale of electric power which license, if, as, and when issued, together with any amendments thereto, is hereinafter referred to as the "FERC License".

City has applied to the Oregon Water Policy Review Board ("WPRB") for permits to appropriate water for hydroelectric power generation at Bull Run Dams No. 1 and No. 2, which permits, if, as and when issued, together with any amendments thereto, are hereinafter referred to as the "WPRB permits".

Purchaser, a privately-owned utility, desires to purchase the power generated by the Project from City to provide service to the general populace within its service area in Multnomah and Clackamas Counties, and City desires to sell the power and energy from the Project for such purposes.

The output of the Project will be available for use by members of the public in Multnomah and Clackamas Counties and the Project will serve general public use.

City, having the responsibility for financing and constructing the Project, proposes to issue tax-exempt Revenue Bonds to finance construction.

CITY AND PURCHASER, FOR AND IN CONSIDERATION OF THE FOLLOWING MUTUAL COVENANTS AND AGREEMENTS, AGREE AS FOLLOWS:

SECTION 1. Term of Agreement. This Agreement shall be in full force and effect from the date of its execution until midnight of August 31, 2017, or until the Revenue Bonds as defined in the Bond Ordinance and the Mortgage and Indenture of Trust ("Trust Indenture") thereby authorized and approved are paid or provision is made for their retirement, whichever is later.

SECTION 2. Definitions and Explanations of Terms.

(a) "Annual Power Cost" means the sum of all of City's costs resulting from the ownership of, and renewals and replacements to, the Project, including, but not limited to, the items hereinafter mentioned in this subsection 2(a) that are incurred or paid by City during each Contract Year in connection with the project, to wit:

- (1) The amount required by the Trust Indenture to be set aside by City for the payment of Debt Service;
- (2) Any amount required by the Trust Indenture to maintain the Bond Reserve Fund at the level specified in such Trust Indenture;
- (3) An amount equal to 1.25 percent (1¼%) of the Cost of Acquisition and Construction less those portions described in Subsections 2(g) (1), 2(g) (2) and 2(g) (5) hereof as adjusted by the ratio which the then current calendar year's Construction Cost Index bears to the Construction Cost Index for the year in which Completion of Construction occurred, which amount, as adjusted, shall be placed in the Renewal and Replacement Fund to be disbursed in accordance with Subsection 7(c) hereunder and the terms of the Trust Indenture; provided that in no event shall the amount in the Renewal and Replacement Fund at any time during the term of this Agreement exceed twelve percent (12%) of the Cost of Acquisition and Construction, less those portions described in Subsections 2(g) (1), 2(g) (2) and 2(g) (5), as adjusted by the ratio which the then current calendar year's Construction Cost Index bears to the Construction Cost Index for the year in which Completion of Construction occurred.
- (4) An amount equal to City's reasonable costs of administration in connection with the Project which costs may include, among others, fees payable to the Consulting Engineer for services performed pursuant to this Agreement during any Contract Year;
- (5) An amount equal to City Bureau of Water Works' reasonable costs for water quality testing and control in connection with the Project;

(o) "Uncontrollable Forces" means any cause beyond the control of either party hereto affecting such party's performance, and which by the exercise of due diligence, the party is unable to prevent or overcome, including, but not limited to, an act of God, fire, flood, explosion, strike, sabotage, an act of the public enemy, civil or military authority, court orders, injunctions, and orders of government agencies with proper jurisdiction, insurrection or riot, an act of the elements, failure of equipment, or inability to obtain or to ship materials or equipment because of the effect of similar causes on suppliers or carriers.

(p) "Uniform System of Accounts" means the Uniform System of Accounts prescribed by FERC for Electric Utilities and Licensees in effect at the time this Agreement is executed, and as thereafter may be amended from time to time by FERC.

SECTION 3. Amount of Energy and Power Sold. City agrees to sell to Purchaser, and Purchaser agrees to purchase, the entire Project Output.

SECTION 4. Payment for Power Sold.

(a) Purchaser agrees to pay City, in monthly installments, for each Contract Year, regardless of the amount of power or energy delivered hereunder, the sum of

- (1) an amount equal to the Annual Power Cost, plus
- (2) an amount equal to the product of the actual annual Project Output in kilowatt-hours of energy, divided by 108,700,000 kilowatt-hours, multiplied by
 - (i) \$305,000, or
 - (ii) ten percent (10%) of the annual amount required by the Trust Indenture to be set aside by City for the payment of Debt Service,
 whichever is greater, plus

(3) an amount, designated the "Share the Savings Element", equal to fifty percent (50%) of the difference by which the Annual Power Cost (increased by costs of operation and maintenance) for such Contract Year is less than the normalized average cost per kilowatt-hour for such Contract Year of the most recently completed Purchaser-related thermal unit which shall have been put into commercial operation prior to such Contract Year, times the number of kilowatt-hours actually delivered to Purchaser by City during such Contract Year,

which sum of amounts shall be the "Annual Purchase Price." In the event that in any Contract Year there is a negative Share the Savings Element because the Annual Power Cost (increased by costs of operation and maintenance) for such Contract Year is more than the normalized average cost per kilowatt-hour of the most recently completed Purchaser-related thermal unit which shall have been put into commercial operation prior to such Contract Year, times the number of kilowatt hours actually delivered to Purchaser by City during such Contract Year, then the amount of the negative Share the Savings Element for such contract year shall be an offset against the Share the Savings Element for any future Contract Year or Years so that only the net positive Share the Savings Element for the future Contract Year or Years shall be included in the Annual Purchase Price for such future Contract Year or Years.

For purposes of this Subsection 4 (a) (3):

the term "cost of operation and maintenance" means those costs paid by Purchaser pursuant to Subsection 4(i),

the term "normalized average cost per kilowatt-hour" means the cost of normal operation of such thermal plant (initially at seventy-five percent (75%) capacity factor, subject to adjustment annually under Section 11 of this agreement to reflect the national industry average for comparable units. For purposes of this agreement, the adjusted capacity factor is defined as the actual total gross generation in megawatt hours plus additional credit for all voluntary cutbacks, the sum divided by the average gross dependable unit capacity times the hours in the period under consideration.) computed in accordance with commonly accepted utility industry principles, and

the term "Purchaser-related thermal-unit," means any generating unit having a nameplate rating of 500,000 kilowatt capacity or greater, whether fueled by fossil fuels or by nuclear energy, upon any portion of the output of which unit (except for "spot purchases") Purchaser relies to meet its base load.

(b) On or before one hundred twenty (120) days prior to the estimated date of Completion of Construction, and on or before May 1 of each Contract Year thereafter, City shall prepare and mail to Purchaser a pro forma statement showing:

- (1) The estimated date of Completion of Construction of the Project. This need not be shown after the first statement; provided, that City shall keep Purchaser advised at all times of changes in such estimated date.
- (2) A detailed estimate of the Annual Power Cost of the Project for the following Contract Year, plus the net positive Share the Savings Element, together hereinafter called the "Estimated Annual Purchase Price"; and
- (3) The amount of the equal monthly payments to be made by Purchaser to pay the Estimated Annual Purchase Price during such Contract Year.

This statement shall be in lieu of the issuance of monthly bills to Purchaser by City.

(c) In the event of a change in costs or Project Output affecting the Estimated Annual Purchase Price by more than ten percent (10%) during any Contract Year, City shall prepare and mail to Purchaser a revised Estimated Annual Purchase Price together with detailed descriptions and computations of such revised estimate which shall supersede the previous Estimated Annual Purchase Price as a basis for Purchaser's monthly payments for the balance of that Contract Year.

(d) These monthly payments are due and payable at the office of United States National Bank of Oregon, Corporate Trusts and Agencies, P.O. Box 3850, Portland, Oregon 97208, Trustee, on the twentieth day of the month following the month in which the date of Completion of Construction occurs, and the twentieth day of each month thereafter, whether or not the Project is then operating; provided, that for the first month in which payment is due, Purchaser may reduce the payment to an amount equal to the Estimated Annual Purchase Price divided by the number of days in the first Contract Year and multiplied by the number of days in the first month included within that Contract Year.

(e) If payment in full is not made on or before the close of business on the twentieth day of the month, a delayed-payment charge of one and one-half percent (1½%) per month or part thereof thereafter of the unpaid amount due will be made. If the twentieth day of the month is a Saturday, Sunday or a federal holiday, the next following business day shall be the last day on which payment may be made without the addition of the delayed-payment charge.

(f) On or before one hundred twenty (120) days after the end of each Contract Year, City will submit to Purchaser a detailed statement of the actual Annual Purchase Price for said Contract Year, based on the annual audit of the accounts of the Project provided for in Section 10 hereof, and will compare the actual Annual Purchase Price with the Estimated Annual Purchase Price for the Contract Year. If the actual amount exceeds the estimated amount, City shall bill Purchaser for an amount equal to the excess and Purchaser agrees to pay the bill within 20 days of receipt of the bill. If the actual amount is less than the estimated amount, City shall give credit to Purchaser against the current charges for power of an amount equal to the difference between the actual amount and the estimated amount provided, that if the comparison is made following the expiration of this Agreement, City shall make a cash refund of that amount to Purchaser.

(g) Purchaser shall be entitled to receive during the Initial Delivery Period all of the Project Output, without charge.

(h) Purchaser agrees to pay City at the office of United States National Bank of Oregon, Corporate Trusts and Agencies, P.O. Box 3850, Portland, Oregon 97208, (Trustee), in the event the first Contract Year shall not commence until October 1, 1982 or later, on the twentieth day of each month subsequent to September 30, 1982 through the month in which completion of construction occurs, an amount equal to one-sixth (1/6) semi-annual interest and one-twelfth (1/12) annual principal payment required on the Revenue Bonds for each month thereafter until the first Contract Year shall commence.

(i) City and Purchaser acknowledge that the Annual Purchase Price is net of any costs of operation and maintenance (except as these costs are used in calculating the Share the Savings Element), which costs of operation and maintenance Purchaser assumes and agrees to pay.

SECTION 5. *Scheduling and Dispatching of Generation and Water Quality Requirements.*

(a) City and Purchaser shall agree upon the scheduled release of water from the reservoirs behind the dams as limited by the requirements of the FERC License and any applicable restrictions imposed by the State of Oregon and the requirements of this Section 5. Purchaser has the sole right to schedule and to dispatch the generation at the Project subject only to the water quality restrictions set forth in Subsection 5(b) and the dispatch restrictions set forth in Subsection 5(c).

(b) The operation of the Project shall be subject to the requirements of City when water supply, water quality or protection and maintenance of City's water works and property may be adversely affected by such operations.

Purchaser shall notify City 48 hours in advance of projected generation; provided, that a shorter notice, but no less than 8 hours, may be given during periods of heavy runoff to provide optimization of the available water resource for generating purposes.

City shall designate an official of its Water Bureau who shall have the authority, without advance notice, to terminate or to defer the generation of electrical power when in his/her judgment such generation would contribute to a degradation in water quality, a depletion in the storage requirements or would endanger property or interfere with necessary maintenance of City's facilities.

City will take into consideration the needs of Purchaser to optimize energy utilization from the generating plants and will advise Purchaser, as far in advance as reasonably possible, of any interference with generation schedules.

Except as necessary to protect water quality or quantity, fluctuation of the reservoirs shall be limited to between elevation 1034 and the spillway crest at Dam No. 1, and to between elevation 858 and the spillway crest at Dam No. 2.

(c) Purchaser covenants that it shall design and operate its system so that electric energy received from the Project will be confined to providing electric service to the general populace within the two contiguous counties of Clackamas and Multnomah, Oregon during the term of this Agreement. Attached hereto, as "Exhibit A" to this Agreement and by this reference made a part of this covenant, is a System Design Diagram and Operational Instructions which Purchaser shall implement to confine electric energy received from the Project to such two contiguous counties. Purchaser shall not amend such Diagram or Instructions, or implement such amendment, without first having certified to City in writing that such proposed amendment will continue to confine the electric energy received from the Project

to providing electric service to the general populace within the two contiguous counties of Clackamas and Multnomah, Oregon.

(d) City shall have the right to obtain independent certification by Consulting Engineer, or by other professional engineers selected by City, that the System Design Diagram and Operational Instructions set forth in Exhibit A to this Agreement, or any proposed amendment thereto, will result, when implemented, in confining the electric energy received from the Project to providing electric service within the contiguous counties of Clackamas and Multnomah, Oregon.

(e) Purchaser shall certify to City in writing that it has installed the necessary equipment and issued appropriate orders to its personnel to implement the System Design Diagram and Operational Instructions set forth in Exhibit A, receipt of which written certification is a condition precedent to City's obligation to delivery of power and energy on the Initial Date of Delivery.

(f) Purchaser shall defend and hold City harmless from all claims (including but not limited to any additional interest costs required under the terms of the Trust Indenture) against City resulting from or in any way arising out of a determination that interest on the Revenue Bonds was not, is not or will not be, exempt from Federal income tax and from Oregon personal income tax due to or caused by Purchaser's act or omission.

SECTION 6. Point of Delivery. Electric power and energy to be delivered hereunder shall be made available to Purchaser at the point in Purchaser's Bull Run substation where the 57-kV transmission facilities of the Project are connected to the facilities of Purchaser.

SECTION 7. Operation and Maintenance of the Project; Renewal and Replacement Fund.

(a) Purchaser shall operate and maintain the Project from the Initial Date of Delivery until the termination of this Contract.

(b) Purchaser shall operate and maintain the Project in accordance with the highest current standards of the electric power industry and shall perform all operational and maintenance procedures specified in the Operations and Maintenance Manuals furnished by City and approved by Purchaser with respect to all facilities in the Project, which approval will not be unreasonably withheld. City may, at any time, cause its Consulting Engineer to inspect the operation and maintenance of the Project and, in the case of any such inspection, shall furnish a copy of any inspection report to Purchaser promptly after it has been prepared. Purchaser shall remedy any deficiencies in a timely manner.

(c) The Trust Indenture shall provide for a Renewal and Replacement Fund established thereunder to be administered as follows: Any item of equipment determined by mutual agreement to need replacement or renewal shall be replaced or renewed at the expense of the Fund, to the extent of any balance in such Fund. In no event shall any costs of repair or normal routine maintenance be charged to the Fund but rather such costs are payable by Purchaser in accordance with Subsection 4(i) herein.

(d) Except in the event of emergency requiring immediate action, City shall give Purchaser reasonable notice, in no event less than thirty (30) days, whenever it proposes to replace items of major equipment.

SECTION 8. Character and Continuity of Service.

(a) Power and energy supplied hereunder shall be approximately 57-kV, three-phase, alternating current, at approximately sixty Hz. In addition to the occasions specified in Subsection 5(b), City may temporarily interrupt or reduce deliveries of electric energy to Purchaser if City determines that the interruption or reduction is necessary in case of emergencies. In order to install equipment in, make repairs to, replacements, investigations and inspections of, or perform other maintenance work on the Project, and in order that operations of the Project will not be unreasonably interrupted or interfered with, either City or Purchaser, after consulting with each other regarding any such planned interruption or reduction, giving the reason therefor and stating the probable duration thereof, will to the best of its ability schedule such interruption at a time which will cause the least interference to the operations of the Project.

(b) Except as interrupted by Uncontrollable Forces or as provided in Subsection 5(b) or otherwise by this Agreement, power and energy shall be made available in accordance with this Agreement at all times during the term of this Agreement commencing with the Initial Date of Delivery.

SECTION 9. Metering and Transmission Losses.

(a) City shall provide suitable meters in each power house of the Project to indicate and to record generation. Purchaser shall provide suitable metering at the point of delivery specified in Section 6 hereof. Meters shall be read by City or an agent of City and records thereof shall be made available to Purchaser as may be reasonably required.

(b) All deliveries of power and energy hereunder shall be measured at the point of delivery.

SECTION 10. Accounts.

(a) City agrees to keep accurate records and accounts of the Project in accordance with the Uniform System of Accounts, separate and apart from its other accounting records. Such records and accounts shall be the subject of an annual audit by a firm of certified public accountants, experienced in electric utility accounting to be employed by City. The cost of the audit shall be part of the cost of administration within the meaning of Subsection 2(a) (4) of this Agreement. The transactions with respect to each Contract Year shall be subject to such an audit.

(b) A copy of each such audit, including all recommendations of the accountants, shall be furnished by City to Purchaser promptly after the same shall have been prepared.

(c) Purchaser agrees to keep accurate records and accounts of costs which it incurs in the course of operating and maintaining the Project. Purchaser agrees to supply the data, records and accounts necessary to make the determinations referred to in Subsection 4(a) (3) herein to the extent Purchaser is reasonably able to provide such data. All such data, records and accounts shall be the subject of an annual audit as provided in Subsections 10(a) and (b) herein.

(d) Records and accounts required hereunder shall be available for inspection by City or Purchaser, as the case may be, during reasonable business hours.

SECTION 11. *Arbitration.*

(a) Any matter described in Subsection 11(b) hereof, which is not settled by mutual agreement of Purchaser and City within sixty (60) days of having been presented in writing to either party, shall be submitted to a board of arbitrators. The board of arbitrators shall be composed of three (3) persons, one of whom shall be appointed by the City, one of whom shall be appointed by Purchaser, and the third person to be appointed by the two persons so appointed. In the event the two members cannot agree upon the appointment of a third person, then the third person shall be appointed by the Presiding Judge of the Circuit Court of the State of Oregon for the County of Multnomah. The procedure for arbitration shall be governed by the laws of the State of Oregon. Insofar as the parties hereto may legally do so, they agree to abide by the decision of the board.

(b) The matters which may be arbitrated in accordance with Subsection 11(a) hereof shall consist of all matters pertaining to maintenance and operation of the Project, equipment renewal and replacement and charges to the Renewal and Replacement Fund, insurance to be carried in connection with the Project (which in no event shall be less than that required under the terms of the Trust Indenture), computation of the "Share the Savings Element", including without limitation the computation of the thermal unit adjusted capacity factor, reasonableness of City's costs of administration and of water quality testing and control and whether those costs were incurred in connection with the Project, and any other matter which Purchaser and City agree to refer to arbitration, except those matters which are by law vested exclusively in the discretion of City.

(c) In the event this Section 11 or any paragraph, sentence, clause, or phrase thereof shall be adjudicated by a court of last resort and of competent jurisdiction to be invalid or illegal, the remainder of this Agreement shall be unaffected by such adjudication, and all other provisions of this Agreement shall remain in full force and effect as though this section or such part thereof so adjudicated to be invalid had not been included herein.

SECTION 12. *Insurance.* City agrees to obtain and maintain in full force and effect during the term of this Agreement, adequate insurance with responsible insurers with policies payable to City for the benefit of City and Purchaser as their respective interests may appear, against:

- (a) Physical loss or damage to the Project on replacement cost basis; and
- (b) Any other risk mutually agreed upon by Purchaser and City.

SECTION 13. *Liability of Parties.* City and Purchaser each assumes full responsibility and liability for the maintenance and operation of its respective properties, or the other's properties if expressly assumed in this Agreement, and shall indemnify and save harmless the other party from all liability and expense on account of any and all damages, claims or actions, including injury to or death of persons, arising from any act or accident in connection with the installation, presence, maintenance and operation of the property and equipment of the indemnifying party or for which the indemnifying party has assumed responsibility under this Agreement.

Purchaser shall maintain liability insurance covering the risks for which Purchaser is responsible under this Section in the principal amount of not less than \$30,000,000 for any one occurrence, less any applicable reasonable deductible, which principal amount shall be subject to reasonable increases to reflect social and economic changes. Purchaser's insurance policy shall name City, its officers, agents and employees as additional insureds, and Purchaser shall provide City with a Certificate of Insurance requiring ninety (90) days' advance notice to City in event of cancellation.

SECTION 14. *Default.*

(a) In the event Purchaser shall default in its obligation to pay the Annual Purchase Price under this Agreement, City shall have the right to offset any amount owed Purchaser by City as a customer of Purchaser for electric power to the extent of such default. Default, for the purposes of this Subsection 14(a) is defined to be delinquency for more than thirty (30) days in payment of any sum payable under this Agreement.

(b) Any waiver at any time by either party to this Agreement of its rights with respect to any default of the other party, or with respect to any other matter arising in connection with this Agreement, shall not be considered a waiver with respect to any subsequent default or matter.

(c) Time is of the essence of this Agreement. Except as otherwise provided, any delinquency in performance of an obligation within a time specified herein shall be deemed a default.

(d) In the event of a default by either Purchaser or City of any obligation under this Agreement, the non-defaulting party may seek any judicial remedy available at law or in equity without prior notice to the other party.

In the event judicial remedy is sought, the prevailing party shall be entitled to payment of its attorney fees within twenty (20) days of entry of final judgment or decree.

(e) In addition to any other remedy available either party shall have the right to obtain specific performance of any provision of this Agreement.

SECTION 15. Construction and Financing Contracts. Consulting Engineer is preparing the plans and specifications for the Project, copies of which shall be provided Purchaser. Purchaser shall have the right to approve the same, which approval will not be unreasonably withheld. If Purchaser disapproves any item, it shall do so within ten days of the receipt by it of the plan or specification. Purchaser shall state in writing its reasons for disapproval and what alternate is acceptable to it. Items not so identified shall be deemed approved. The Project shall be constructed at the lowest reasonable cost and in a prudent and skillful manner in accord with standards prevailing in the utility industry for similar projects, with applicable laws and in accordance with this Agreement. City, upon adoption of the plans and specifications, agrees that it will not (without the consent of Purchaser) modify, amend, or waive full compliance with, such plans and specifications, in any material respect, insofar as such plans and specifications pertain to the manufacture, installation, testing, and acceptance of all items of major equipment (turbines, generators, governors, and transformers).

SECTION 16. Completion of Construction. City agrees to proceed diligently with the financing and construction of the Project and, subject to Uncontrollable Forces, plans, but is not obligated, to complete the Project by January 1, 1982.

SECTION 17. Notices and Computation of Time. Any notice or demand, except those provided for in Section 5 hereof, by Purchaser under this Agreement to City shall be deemed properly given if mailed postage prepaid and addressed to the City Auditor, City Hall, Portland, Oregon 97201, and to United States National Bank of Oregon, Corporate Trusts and Agencies, P.O. Box 3850, Portland, Oregon 97208, (Trustee). Any notice or demand, except those provided for in Section 5 hereof, by City to Purchaser under this Agreement shall be deemed properly given if mailed postage prepaid and addressed to Portland General Electric Company, 121 S.W. Salmon Street, Portland, Oregon, 97204, Attention: President, and to United States National Bank of Oregon, Corporate Trusts and Agencies, P.O. Box 3850, Portland, Oregon 97208, (Trustee). In computing any period of time from such notice by either party, such period shall commence at 12:01 a.m. (midnight) on the date notice is mailed. The designations of the name and address to which any such notice or demand is directed may be changed at any time and from time to time by either party giving notice as above provided.

SECTION 18. Modification of Agreement Terms. It is recognized by the parties that, by virtue of the Bond Ordinance, this Agreement cannot be amended, modified, or otherwise altered by agreement of the parties in any manner that will impair or adversely affect the security afforded bondholders by the provisions of this Agreement for the purchase and sale of power for the payment of the principal of, and interest and premium, if any, on any bonds issued thereunder as they respectively become payable, so long as any of the bonds are outstanding and unpaid or until provision is irrevocably made for their payment.

SECTION 19. City's Bond Resolution and License. It is recognized by the parties that Purchaser in its operation of the Project must comply with the requirements of the Bond Ordinance, the Trust Indenture, the FERC License, and the WPRB permits, and it is therefore agreed that this Power Sales Agreement is made subject to the terms and provisions of the Bond Ordinance, the Trust Indenture, the FERC License and the WPRB permits. City has furnished or will furnish Purchaser a copy of each document above mentioned. Delivery of this Agreement is not complete until Purchaser has certified in writing that none of these documents materially impairs its rights under this Agreement. City shall not, without the written consent of Purchaser, amend, modify, or otherwise change the Bond Ordinance or the Trust Indenture if such amendment, modification, or change would be to the disadvantage of Purchaser.

SECTION 20. Conflict of Laws. The parties agree that this contract shall be governed by the laws of the State of Oregon.

SECTION 21. Assignment of Agreement. Purchaser may not assign its interest in this Agreement without the written consent of City, which consent will not be unreasonably withheld. Subject to such consent having been given, this Agreement shall inure to the benefit of, and shall be binding upon the respective successors and assigns of the parties to this Agreement. No assignment or transfer of this Agreement shall relieve the parties hereto of any obligation incurred hereunder.

APPROVED AS TO FORM:

147547

CHRISTOPHER P. THOMAS

City Attorney

CITY OF PORTLAND, OREGON

(SEAL)

By NEIL GOLDSCHMIDT

Mayor

ATTEST:

By FRANCIS J. IVANCIE

Commissioner of Public Utilities

By GEORGE YERKOVICH

City Auditor

PORTLAND GENERAL ELECTRIC COMPANY

(SEAL)

By GLEN BREDEMEIER

Vice President

ATTEST:

By WARREN HASTINGS

Asst. Secretary

EXHIBIT A

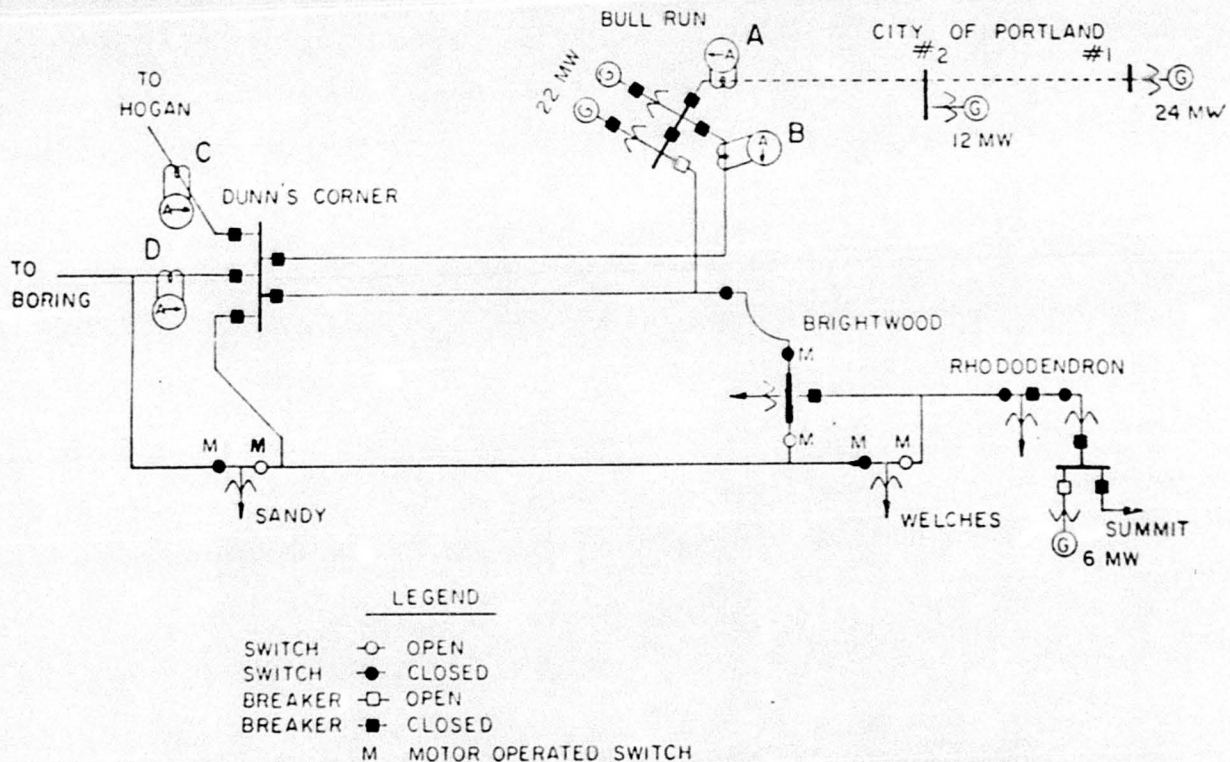
SYSTEM DESIGN DIAGRAM AND OPERATIONAL INSTRUCTIONS

Purchaser's system configuration, upon completion of the Project but prior to initial Date of Delivery, will be as described herein. Purchaser and City are aware that there is substantial electrical load within the counties of Clackamas and Multnomah, Oregon which requires import of electric energy from other sources in addition to any local generation. There is a minor load in Hood River County which is supplied by means of a 13kV feeder from Purchaser's Summit Substation. The only condition under which such minor load could be dispatched from the Project to such load would be during the period when Purchaser's power supply, including its Bull Run generation, is less than such load. Accordingly, Purchaser will have installed the necessary relay/computer equipment to sense and to respond to that situation. The directional power flows will be determined at the points shown in the diagram made a part hereof.

So long as any of the following conditions exist, the maximum Hood River County load, "L", will continue to be served from generation other than the Project:

1. $B - A \geq L$
2. $C \geq L$
3. $D \geq L$

If none of the above exist, Purchaser's Summit generators will start automatically, in accordance with programming instructions implemented by Purchaser. If, for any reason, the Summit generators do not operate, Purchaser's operators will have been instructed to take immediate steps either to restore other sources of generation, or remove the Project from the line.



RAGEN, ROBERTS & O'SCANNLAIN
LAWYERS
3317 FIRST NATIONAL BANK TOWER
PORTLAND, OREGON 97201

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ONE MARKET PLAZA
SAN FRANCISCO, CALIFORNIA 94105
TELEPHONE 415-777-3411

\$38,000,000
CITY OF PORTLAND, OREGON
HYDROELECTRIC POWER REVENUE BONDS

We have acted as joint Bond Counsel to the City of Portland, Oregon (the "City") in connection with proceedings for the issuance and sale of \$38,000,000 principal amount of revenue bonds issued by the City, designated "Hydroelectric Power Revenue Bonds" (the "Bonds"), and we have reviewed, and in part prepared, a certified transcript of the proceedings of the City.

The Bonds are issued under and subject to the provisions of the Charter of the City, and pursuant to the provisions of an ordinance adopted by the City Council of the City on _____, 1979, (the "Ordinance") providing for the issuance of the Bonds for the purpose of providing funds for the acquisition, construction, improvement and financing of improvements to the City of Portland, Oregon Hydroelectric Project (the "Project") comprising facilities for the local furnishing of electric energy. The Ordinance adopted the terms of a trust indenture (the "Indenture") between the City and the United States National Bank of Oregon.

The Bonds are authorized to be initially issued in coupon form, in the denomination of \$5,000 each. The Bonds are dated June 1, 1979, and are 7600 in number, numbered 1 to 7600, inclusive. The Bonds are numbered, mature and bear interest, payable semiannually on April 1 and October 1 in each year as set forth in the following schedule:

<u>Bond Numbers (both inclusive)</u>	<u>Principal Amount</u>	<u>Maturity Date (October 1)</u>	<u>Interest Rate Per Annum</u>
1 - 60	\$ 300,000	1983	%
61 - 125	325,000	1984	
126 - 195	350,000	1985	
196 - 270	375,000	1986	
271 - 350	400,000	1987	
351 - 435	425,000	1988	
436 - 530	475,000	1989	
531 - 630	500,000	1990	
631 - 735	525,000	1991	
736 - 850	575,000	1992	
851 - 970	600,000	1993	
971 - 1100	650,000	1994	
1101 - 1235	675,000	1995	
1236 - 1380	725,000	1996	
1381 - 1535	775,000	1997	
1536 - 1700	825,000	1998	
1701 - 1880	900,000	1999	
1881 - 2070	950,000	2000	
2071 - 2270	1,000,000	2001	
2271 - 2485	1,075,000	2002	
2486 - 2715	1,150,000	2003	
2716 - 2960	1,225,000	2004	
2961 - 7600	23,200,000	2016	

Both the principal and interest are payable in lawful money of the United States of America at the United States National Bank of Oregon, Portland, Oregon, or at the office of the fiscal agent for the State of Oregon, New York, New York.

The Bonds are subject to redemption on and after October 1, 1989, in whole, or in part in inverse order of maturities (by lot within a maturity), on any interest payment date, at the respective redemption prices (expressed as percentages of the principal amount) set forth below, together with accrued interest to the redemption date:

<u>Redemption Dates</u>	<u>Redemption Price</u>
October 1, 1989 and April 1, 1990	103 %
October 1, 1990 and April 1, 1991	102½ %
October 1, 1991 and April 1, 1992	102 %
October 1, 1992 and April 1, 1993	101½ %
October 1, 1993 and April 1, 1994	101 %
October 1, 1994 and April 1, 1995	100½ %
October 1, 1995 and thereafter	100 %

The Bonds maturing on October 1, 2016 are subject to redemption in part by lot prior to maturity on any interest payment date on or after October 1, 2005, upon payment of the principal amount thereof together with accrued interest to the date fixed for redemption, from amounts credited in a sinking fund established in the Indenture. The amount which shall be credited to such sinking fund shall be sufficient to redeem on October 1 of each year the principal amount specified for each of the years as follows:

<u>October 1</u>	<u>Principal Amount</u>	<u>October 1</u>	<u>Principal Amount</u>
2005	\$1,325,000	2011	\$1,950,000
2006	1,400,000	2012	2,075,000
2007	1,500,000	2013	2,225,000
2008	1,600,000	2014	2,375,000
2009	1,700,000	2015	2,525,000
2010	1,825,000	2016	2,700,000

The Bonds are also redeemable out of proceeds received by the City from insurance and condemnation under certain conditions as provided in the Indenture, and are immediately redeemable if any act or omission to act of Portland General Electric Company (the "Company") results in interest on the Bonds being includable in the gross taxable income of bondholders, such redemption in either event to be at a price of 103% of the principal amount if redeemed prior to October 1, 1991 and at par if redeemed thereafter. If the Bonds are not redeemed upon a final determination that the interest thereon is taxable as described in the Indenture, the interest rate on the Bonds from the date of such determination shall be 10% per annum.

In our opinion such proceedings show lawful authority for the issuance of the Bonds under the City Charter, the Constitution and laws of the State of Oregon now in force, and the Bonds constitute valid, legal and binding special obligations of the City and are payable solely from Gross Revenues as that term is defined in the Indenture, (the "Revenues") in accordance with their terms.

We are further of the opinion that:

1. The Ordinance has been duly and legally authorized and adopted and is a valid, legal and binding Ordinance of the City Council of the City.
2. The Bonds are secured by a charge on the Revenues, and the Revenues are pledged to and constitute a trust fund for the security and payment of the Bonds. The City is not obligated to pay the principal of or interest on the Bonds except from the Revenues. The Bonds do not constitute an indebtedness of the City and the holders of the Bonds cannot compel the exercise of the taxing power of the City or the forfeiture of any property of the City.
3. The Indenture provides for the issuance of additional bonds which will rank equally with the Bonds as to security, regardless of the time or times of their issuance, upon the terms and subject to the conditions set forth in the Indenture.

4. The Indenture and the rights and obligations of the City and of the holders of the Bonds and coupons issued under the Indenture may be modified or amended in the manner and subject to the limitations contained in the Indenture.

5. The City has entered into a certain agreement, entitled "Power Sales Agreement" and dated as of April 12, 1979 (the "Agreement") with Company. The Agreement provides for the sale by the City to the Company of certain electric output of the Project, the payments for which are to be made at the times and in the amounts sufficient to provide for the payment of the principal of, and interest and premium, if any, on the Bonds. The Agreement has been executed and delivered and is a valid and binding obligation of the parties thereto.

6. Interest on the Bonds is exempt from present federal income taxes under existing statutes, regulations and administrative interpretations, except in the case of interest on any Bond while said Bond is held by a person who is a "substantial user" of the Project or a "related person" within the meaning of Section 103(b)(8) of the Internal Revenue Code. The Bonds have been issued to provide facilities for the local furnishing of electric energy within the meaning of Section 103(c)(4)(E) of said Code; and the Agreement provides that (a) the Company shall (i) distribute the electric output of the Project in such a manner as to comply with said Section, and (ii) hold the City harmless from any loss, cost or expense arising from the failure of the Company to so distribute the electric output of the Project, and (b) the City shall pay interest on the Bonds at the rate of ten percent per annum in the event interest thereon shall become taxable by reason of the failure of the Company to so distribute the electric output of the Project. Under existing statutes, interest on the Bonds is also exempt from all State of Oregon personal income taxes.

Very truly yours,

RAGEN, ROBERTS & O'SCANNLAIN

RUTAN & TUCKER

EXHIBIT C

OFFICIAL NOTICE OF BOND SALE

\$38,000,000
CITY OF PORTLAND
COUNTY OF MULTNOMAH
STATE OF OREGON
HYDROELECTRIC POWER REVENUE BONDS

Notice is hereby given that sealed bids will be received by the Auditor on behalf of the City of Portland, Multnomah County, Oregon until 10 o'clock a.m. Pacific Daylight Time, on May 16, 1979, at the offices of the City Auditor, City Hall, 1220 S.W. Fifth Avenue, Portland, Oregon 97205, at which time they will be publicly opened and announced.

The bids shall be considered and acted upon by the City Council of the City of Portland at its regular meeting to be held on May 16, 1979, such consideration to commence at 11 o'clock a.m. Pacific Daylight Time.

ISSUE: Thirty-Eight Million Dollars (\$38,000,000) consisting of 7600 coupon bonds in denominations of FIVE THOUSAND DOLLARS (\$5,000), all dated June 1, 1979.

INTEREST RATE: Maximum not to exceed a net effective rate of eight percent (8%) per annum, the first interest payment due on October 1, 1979 and semiannually thereafter on April 1 and October 1 of each year. Bidders must specify the interest rate or rates which the bonds hereby offered for sale shall bear. The bids shall comply with the following conditions: (1) each interest rate specified in any bid must be in multiples of 1/8th or 1/20th of one percent (1%), not exceeding a net effective rate of eight percent (8%) per annum; (2) no bond shall bear more than one rate of interest, no interest payment shall be evidenced by more than one coupon, and supplemental coupons will not be permitted; (3) each bond shall bear interest from its date to its stated maturity date at the interest rate specified in the bids; (4) all bonds maturing at any one time shall bear the same rate of interest; and (5) the interest rate indicated for the bonds of any maturity shall not be less than the interest rate indicated for the bonds of any prior maturity.

MATURITIES: The bonds shall mature serially in numerical order on the first day of October from 1983 to 2004, and term bonds shall be due October 1, 2016 as follows:

<u>AMOUNT</u>	<u>DATE</u>	<u>AMOUNT</u>	<u>DATE</u>
\$ 300,000	1983	\$ 650,000	1994
325,000	1984	675,000	1995
350,000	1985	725,000	1996
375,000	1986	775,000	1997
400,000	1987	825,000	1998
425,000	1988	900,000	1999
475,000	1989	950,000	2000
500,000	1990	1,000,000	2001
525,000	1991	1,075,000	2002
575,000	1992	1,150,000	2003
600,000	1993	1,225,000	2004
		23,200,000	2016

REGISTRATION: The bonds will be issued in coupon form exchangeable for fully registered bonds at the expense of the holder.

REDEMPTION: The City reserves the right to redeem any or all of the bonds then outstanding in inverse numerical order on the following interest payment dates and at the following prices expressed as a percentage of the principal amount, plus accrued interest to the date of redemption:

<u>IF REDEEMED ON</u>	<u>REDEMPTION PRICE</u>
October 1, 1989 or April 1, 1990	103%
October 1, 1990 or April 1, 1991	102 1/2%
October 1, 1991 or April 1, 1992	102%
October 1, 1992 or April 1, 1993	101 1/2%
October 1, 1993 or April 1, 1994	101%
October 1, 1994 or April 1, 1995	100 1/2%
October 1, 1995 or thereafter	100%

The Bonds maturing on October 1, 2016 are subject to redemption in part by lot prior to maturity, on any interest payment date on or after October 1, 2005, upon payment of the principal amount thereof together with accrued interest to the date fixed for redemption, from amounts credited in a sinking fund established in the Trust Indenture (the "Indenture") between the City and the United States National Bank of Oregon. The amount which shall be credited to such sinking fund shall be sufficient to redeem on October 1 of each year the principal amount specified for each of the years as follows:

<u>October 1</u>	<u>Principal Amount</u>	<u>October 1</u>	<u>Principal Amount</u>
2005	\$1,325,000	2011	\$1,950,000
2006	1,400,000	2012	2,075,000
2007	1,500,000	2013	2,225,000
2008	1,600,000	2014	2,375,000
2009	1,700,000	2015	2,525,000
2010	1,825,000	2016	2,700,000

The bonds are also redeemable out of proceeds received from insurance or condemnation and are immediately redeemable if, by any act or omission to act of the Purchaser result in the interest thereon being includable in the gross taxable income of bondholders, such redemption in either event to be at a price of 103% of the principal amount of the bonds if redeemed prior to October 1, 1990 and at par if redeemed on or after October 1, 1990. Notice of any such intended redemption shall be given by publication of such notice at least once, not less than thirty (30) nor more than sixty (60) days prior to said redemption date, in a newspaper of general circulation in the City of Portland, Oregon, and in The Daily Bond Buyer. Notice shall also be mailed to the holder of each registered bond. Interest on any bond or bonds so called for redemption shall cease on such redemption date unless the same are not redeemed upon presentation made pursuant to such call.

PAYMENT: Principal and interest are payable, either at maturity or upon earlier redemption, in lawful money of the United States at the principal office of United States National Bank of Oregon, Portland, Oregon, or at the principal office of the fiscal agent for the State of Oregon, New York, New York.

PURPOSE: The bonds have been duly authorized by the City Council of the City of Portland, Oregon for the purpose of raising funds to construct hydroelectric power generating facilities on the Bull Run River in Multnomah and Clackamas Counties, Oregon, the power generated therefrom to be sold pursuant to a Power Sales Agreement to Portland General Electric Company, an Oregon corporation.

SECURITY: The bonds of this issue are revenue bonds, payable solely from the gross revenues generated by the City from the sale of power generated by its hydroelectric power generating facilities on the Bull Run River; in no event shall the City be liable for the payment of the principal of, premium or interest on the bonds, except to the extent that there are revenues from the Power Sales Agreement therefor, and the bonds shall not be construed to constitute an indebtedness of the City of Portland, Oregon.

LEGAL OPINION: The approving opinion of Ragen, Roberts & O'Scannlain, Portland, Oregon, and Rutan & Tucker, San Francisco, California, will be provided at no cost to the purchaser, and will be printed on the bonds at the expense of the City.

TAX EXEMPT STATUS: Interest on the bonds, in the opinion of bond counsel, is exempt from taxation by the United States under present Federal income tax statutes, regulations and administrative interpretations, except in the case of interest on any Bond while such Bond is held by a person who is a substantial user of the Project or a "related person" within the meaning of Section 103(b)(8) of the Internal Revenue Code. The Bonds are also exempt from personal income taxation by the State of Oregon under present state law.

BEST BID: The bonds will be awarded to the responsible bidder whose proposal will result in the lowest net cost to the City. The successful bid will be determined by computing the total amount of interest which the City would be required to pay from the date of each bond to its respective maturity date (by giving effect to the sinking fund installments) at the coupon rate or rates specified in the bid assuming no bonds are called prior to maturity, plus discount and less premium offered, if any. The purchaser must pay accrued interest, computed on a 360-day basis, from the date of the bonds to the date of delivery. The cost of printing the bonds will be borne by the City.

DELIVERY: Delivery of the bonds will be made without cost to the successful bidder at such bank in the City of New York, New York, as the successful bidder shall name. Payment for the bonds must be made in Federal funds. Delivery will be made within thirty days, and is expected to be made June 6, 1979.

FORM OF BID: All bids must be for not less than all the bonds hereby offered for sale, and for not less than ninety-eight percent (98%) of the par value thereof and accrued interest to the date of delivery. Each bid together with bidder's check as herein specified must be enclosed in a sealed envelope addressed to the City and designated "Proposal for Bonds". Bids must be received by 10 o'clock a.m. Pacific Daylight Time.

BID CHECK: All bids must be unconditional and accompanied by a certified or cashier's check on a bank doing business in the State of Oregon for Seven Hundred Sixty Thousand Dollars (\$760,000) payable to the order of the City to secure the City from any loss resulting from the failure of the bidder to comply with the terms of its bid. In addition, bidders are requested to supply the total interest cost, the amount of any discount or premium, net interest cost expressed in dollars, and the net interest rate, based upon the aggregate interest cost, if its bid be accepted,

that the City will pay upon the issue if the bid is accepted. Such information shall be considered as informative only. Checks will be forfeited to the City as liquidated damages in case the bidder to whom the bonds are awarded shall withdraw its bid or fail to complete its purchase in accordance with the terms thereof. No interest shall be allowed on the deposit but the check of the successful bidder will be retained as part payment of the bonds or for liquidated damages as described above. Checks of the unsuccessful bidders will be returned by the City promptly after award of bid.

RIGHT OF REJECTION: The City, by its Council, reserves the right to reject any or all bids and to waive any irregularity that may appear in a bid.

OFFICIAL STATEMENT: The City has prepared a preliminary official statement relating to the bonds, copies of which will be furnished upon request to its financial consultant, Smith Barney, Harris Upham & Co. Incorporated, or to the undersigned. As soon as possible after the successful bid is determined, the official statement of the City will be dated the date of the sale of the bonds, the interest rate or rates will be inserted therein, the schedule of debt service requirements will be revised to reflect the actual interest rate or rates, the successful bidder will be furnished, free of charge, with a reasonable number of copies of such official statements, including five copies thereof manually signed by the City.

CUSIP: The City shall pay for the imprinting of CUSIP numbers on all bonds of this issue. The purchaser shall be required to pay the fees of the CUSIP Bureau for assigning such numbers. Neither an improperly imprinted number nor the failure to print such numbers on any bond will constitute basis for the purchaser to refuse to accept delivery.

NO LITIGATION: At the time of payment for the delivery of said bonds, the City will furnish the successful bidder a certificate that there is no litigation pending affecting the validity of the bonds.

FURTHER INFORMATION: The preliminary official statement and additional information regarding the City and this sale may be obtained from Smith Barney, Harris Upham & Co. Incorporated, 350 California Street, San Francisco, California 94104, (415) 955-1600.

George Yerkovich, Auditor
City of Portland, Oregon

**CITY OF PORTLAND, OREGON
HYDROELECTRIC POWER REVENUE BONDS**

**Official Bid Form
and
Notice of Bond Sale**

OFFICIAL BID FORM FOR
\$38,000,000
HYDROELECTRIC POWER REVENUE BONDS
CITY OF PORTLAND, OREGON

Mr. George Yerkovich, Auditor
 City of Portland, Oregon
 City Hall
 1220 S.W. Fifth Avenue
 Portland, Oregon 97204

May 16, 1979

Subject: Hydroelectric Power Revenue Bonds Bid

Dear Sir:

Subject to the provisions of and in accordance with the terms of the attached Notice of Bond Sale, which is hereby made a part of this proposal, we offer to purchase the \$38,000,000 Hydroelectric Power Revenue Bonds of the City at the price of _____ Dollars (\$ _____) plus interest accrued thereon to the date of their delivery.

Said bonds shall bear interest at the respective rates per annum specified below:

Maturity Date October 1	Amount Maturing	Interest Rate	Maturity Date October 1	Amount Maturing	Interest Rate
1983	\$ 300,000	%	1995	675,000	
1984	325,000		1996	\$ 725,000	%
1985	350,000		1997	775,000	
1986	375,000		1998	825,000	
1987	400,000		1999	900,000	
1988	425,000		2000	950,000	
1989	475,000		2001	1,000,000	
1990	500,000		2002	1,075,000	
1991	525,000		2003	1,150,000	
1992	575,000		2004	1,225,000	
1993	600,000		2016	23,200,000	
1994	650,000				

We enclose herewith a certified or cashier's check payable to the order of the City of Portland, Oregon, in the amount of \$760,000 as a good faith deposit.

By _____

COMPUTATION

Computation made as requested in the Notice of Sale, not part of the above bid:

Total interest cost from June 1, 1979	\$ _____
Plus the amount of discount bid below \$38,000,000	\$ _____
Less the amount of premium bid above \$38,000,000	\$ _____
Net interest cost (in dollars)	\$ _____
Interest Cost*	_____ %

*Computed according to the Notice of Sale.

ORDINANCE NO. 147547

An Ordinance authorizing and providing for the issuance of \$38,000,000 Hydroelectric Power Revenue Bonds of the City of Portland, Oregon; approving and authorizing the execution of a Trust Indenture to secure said Bonds; approving the forms of the Preliminary Official Statement, the Official Notice of Bond Sale and the bid form; providing for the sale of the Bonds; and declaring an emergency.

The City of Portland ordains:

Section 1. The Council finds:

1. The City Council has heretofore authorized the expenditure of monies to study a proposed hydroelectric power generating facility on the Bull Run River in Multnomah and Clackamas Counties (the "Project"), and related matters.
2. On March 23, 1979 the City received from the Federal Energy Regulatory Commission a license to construct, operate and maintain the project, effective March 1, 1979.
3. On April 4, 1978, the City Council authorized acceptance of the terms and conditions of the order of the Federal Energy Regulatory Commission granting the license for the project, and on the same day awarded a contract for the construction of turbines and generators for the project. On April 11, 1979, the City Council authorized execution of a proposed Power Sales Agreement between Portland General Electric Company providing for the sale of power generated by the Project and Portland General Electric Company.
4. The Project is to be acquired and constructed out of the proceeds of revenue bonds to be issued by the City and to be payable solely from the gross revenues received by the City under the Power Sales Agreement.
5. There is attached hereto and made a part of this Ordinance Exhibit A, being the proposed Trust Indenture, Exhibit B, being the proposed Preliminary Official Statement, Exhibit C, being the proposed Official Notice of Bond Sale, and Exhibit D, being the proposed bid form, each of which should be approved by the Council.

NOW, THEREFORE, the Council directs and finds:

- a. The Trust Indenture, attached as Exhibit A, is hereby approved in all respects.

- b. The Preliminary Official Statement, attached as Exhibit B, is hereby approved as to form; the Final Official Statement will be updated to provide final information, will be dated the date of sale of the Bonds and the Final Official Statement will not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading.
- c. The Official Notice of Bond Sale, attached as Exhibit C, is hereby approved in all respects.
- d. The bid form, attached as Exhibit D, is hereby approved in all respects.

Section 2. The City Council hereby authorizes the issuance, sale and delivery of the Bonds in the aggregate principal amount of \$38,000,000, and on such terms and conditions as are described in the Trust Indenture attached as Exhibit A, and to bear interest at such rate or rates as shall be fixed by ordinance to be hereafter adopted at the time of sale of the Bonds.

Section 3. The Bonds are to be issued in accordance with and pursuant to the Trust Indenture which is to be executed in substantially the same form as Exhibit A hereto. Recourse on the Bonds executed and delivered by the City pursuant to the Trust Indenture may be had only against the security for the Bonds as provided therein.

Section 4. The Mayor and the Auditor are hereby authorized and directed to execute the Trust Indenture, to be dated as May 1, 1979, and to deliver the same to the Trustee named therein in substantially the same form as is attached as Exhibit A hereto.

Section 5. The Bonds, in substantially the form set forth in the Indenture, are hereby approved in all respects, and upon the adoption of the ordinance confirming sale of the Bonds, the Mayor and Auditor are hereby authorized to execute each of the Bonds and to affix the seal of the City thereto. The Mayor, Auditor and all other proper officers and employees of the City are hereby authorized and directed to take all steps on behalf of the City to perform and discharge the obligations of the City under the Trust Indenture and the Bonds.

Section 6. The Council declares that an emergency exists in order that approval of the Trust Indenture, Preliminary Official Statement, Official Notice of Bond Sale and bid form may be approved, and the Bonds may be sold; therefore this Ordinance

Calendar No. 1164

ORDINANCE No. 147517

Title

An Ordinance authorizing and providing for the issuance of \$38,000,000 Hydroelectric Power Revenue Bonds of the City of Portland, Oregon; approving and authorizing the execution of a Trust Indenture to secure said Bonds; approving the forms of the Preliminary Official Statement, the Official Notice of Bond Sale and the bid form; providing for the sale of the Bonds; and declaring an emergency.

THE COMMISSIONERS VOTED AS FOLLOWS:		
	Yeas	Nays
Ivancie	1	
Jordan	1	
McCready	1	
Schwab	1	
Goldschmidt	1	

FOUR-FIFTHS CALENDAR		
Ivancie	1	
Jordan	1	
McCready	1	
Schwab	1	
Goldschmidt	1	

Substitution amendments

Filed APR 13 1979

GEORGE YERKOVICH
Auditor of the CITY OF PORTLAND

By Gordon Goebel
Deputy

INTRODUCED BY
Commissioner F.J. Ivancie

NOTED BY THE COMMISSIONER
Affairs
Finance and Administration
Safety
Utilities <i>FBI CJ</i>
Works

BUREAU APPROVAL
Bureau: Water Works
Prepared By: J.L. Doane
Date: 4/12/79
Budget Impact Review:
<input checked="" type="checkbox"/> Completed <input type="checkbox"/> Not required
Bureau Head: Robert Hyle, Manager
Carl Goebel, Assistant Manager

NOTED BY
City Attorney <i>CPT</i>
City Auditor
City Engineer