

PORTLAND GENERAL ELECTRIC COMPANY AND SUBSIDIARIES
NOTES TO FINANCIAL STATEMENTS (Continued)

years of renewal options at the then fair rental value. The Company has options, commencing in 1990, to repurchase the facilities for the greater of fair market value or a stipulated loss value specified in the lease. The lease represents \$68,731,000 of basic lease commitments.

During 1978, the Company entered into a sale/leaseback of its headquarters complex for a basic lease term of 40 years with up to 25 years of renewal options. The Company has options, commencing in 2003, to repurchase the complex for fair market value as encumbered by the lease. At the end of the basic lease term, the Company must offer to purchase the complex for \$15,000,000. A mortgage on the complex of \$31,737,000 was assumed by the lessor and is guaranteed by the Company. This lease represents \$196,608,000 of basic lease commitments and the \$8,791,000 sublease rental credits, for a net rental commitment of \$187,817,000.

Lease commitments on two combustion turbine leases, expiring in 1998 and 1999, represent \$83,846,000 of noncapitalized financing leases. In the event of certain contingencies, the Company may be required to purchase the turbines at a maximum price of \$55,850,000 in 1980 and at decreasing amounts thereafter. At the expiration of each lease, the Company has an option to renew the lease for 5 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 noncapitalized 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 \$46,587,000 and \$44,764,000 and liabilities would have increased by \$51,874,000 and \$50,977,000 at December 31, 1978 and 1979. The resulting net increase in expenses would have been \$1,030,000 in 1978 and \$1,055,000 in 1979. For ratemaking purposes, these disclosures are not meaningful since these assets were not used by the Commissioner in determining rates charged to customers.

Note 8. Supplementary Income Information

	Years Ended December 31				
	1979	1978	1977	1976	1975
	(Thousands of Dollars)				
Taxes other than income taxes					
Property	\$15,798	\$17,322	\$17,802	\$15,897	\$12,784
Payroll	2,448	1,904	1,645	1,306	1,061
City taxes and license fees	5,340	4,592	4,003	3,370	2,779
Other	580	462	501	399	333
Total	<u>\$24,166</u>	<u>\$24,280</u>	<u>\$23,951</u>	<u>\$20,972</u>	<u>\$16,957</u>
Rentals charged to operating expenses					
Basic rentals*	\$ 2,455	\$ 2,659	\$ 1,838	\$ 1,231	\$ 1,141
Contingent rentals**	809	726	429	159	160
Noncapitalized financing leases*	5,526	5,191	5,110	4,595	4,376
Total	<u>\$ 8,790</u>	<u>\$ 8,576</u>	<u>\$ 7,377</u>	<u>\$ 5,985</u>	<u>\$ 5,677</u>
Depreciation and amortization					
Utility	\$33,642	\$31,587	\$28,159	\$22,112	\$13,890
Nonutility	—	713	415	—	—
Amortization of nuclear fuel	13,198	2,708	10,974	2,596	—
Total	<u>\$46,840</u>	<u>\$35,008</u>	<u>\$39,548</u>	<u>\$24,708</u>	<u>\$13,890</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 Consolidated 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.

PORTLAND GENERAL ELECTRIC COMPANY AND SUBSIDIARIES
NOTES TO FINANCIAL STATEMENTS (Continued)

Note 9. Litigation

In February 1979, the Company filed suit in United States District Court for the District of Oregon seeking to recover from Bechtel Corporation and Bechtel Power Corporation all costs incurred as a result of errors in the design of the Trojan plant's control building. The costs included excess replacement power costs of \$26 million incurred during the shutdown of the plant during the second half of 1978 and an estimated \$6.5 million for other expenses, including any necessary modifications to the plant.

In March 1979, Bechtel Corporation and Bechtel Power Corporation filed their answer to the complaint alleging numerous affirmative defenses and counterclaims of approximately \$108 million. In the opinion of management and its legal counsel, the counterclaims have little merit.

Note 10. Subsequent Events

(a) The Public Utility Commissioner of Oregon granted the Company a general rate increase averaging 17.7% effective for service on and after January 14, 1980.

(b) During January 1980, the Company sold 4,000,000 additional shares of common stock for net proceeds of \$55,340,000.

(c) During February 1980, the Company sold \$55,000,000 of 13 1/4% first mortgage bonds due 2000.

Note 11. Quarterly Financial Data (Unaudited)

The following quarterly information is presented for 1979 and 1978. Variations in earnings information between quarters are primarily due to the seasonal nature of the Company's business.

	<u>March 31</u>	<u>June 30</u>	<u>September 30</u>	<u>December 31</u>
	(Thousands of Dollars)			
1979				
Operating revenues	\$97,679	\$81,081	\$72,224	\$98,997
Operating income	\$30,214	\$20,682	\$15,794	\$(1,401)
Net income	\$22,729	\$17,134	\$ 9,974	\$(3,715)
Income available for common stock	\$19,260	\$13,681	\$ 6,520	\$(7,169)
Common stock				
Average shares outstanding	27,740,339	31,171,754	31,284,492	31,419,060
Earnings per share*	\$.69	\$.44	\$.21	\$ (.23)
1978				
Operating revenues	\$80,895	\$71,449	\$69,725	\$81,609
Operating income	\$30,184	\$19,029	\$19,885	\$14,141
Income before cumulative effect of change in accounting policy	\$20,699	\$10,388	\$12,051	\$ 5,646
Net income	\$28,544	\$10,388	\$12,051	\$ 5,646
Income available for common stock	\$24,990	\$ 6,847	\$ 8,511	\$ 2,106
Common stock				
Average shares outstanding	22,285,373	24,676,933	25,898,094	25,979,510
Earnings per share*	\$1.12**	\$.28	\$.33	\$.08

* As a result of dilutive effect of shares issued during the period, quarterly earnings per share cannot be added to arrive at annual earnings per share.

** Includes the effect of the change in accounting policy relating to the recording of unbilled revenues (\$.35 per share).

PORTLAND GENERAL ELECTRIC COMPANY AND SUBSIDIARIES
SUPPLEMENTARY INFORMATION TO DISCLOSE THE EFFECTS
OF CHANGING PRICES (Unaudited)

Financial statements presented in accordance with generally accepted accounting principles report historical costs which do not reflect the changing value of the dollar which occurs during periods of rapidly changing prices. Accordingly, such statements do not adequately measure the impact of inflation on business enterprises. In recognizing the need to assist readers of financial statements in assessing that impact, selected information on the effects of changing prices is presented.

Two methods of measuring the effects of changing prices are presented in the tables.

The first method provides data which has been adjusted for general price changes by using the Consumer Price Index for all Urban Consumers as a broadbased measure of general inflationary effects. This method provides financial information in dollars of equivalent value (constant dollars).

The second method provides data reflecting the effects of changes in specific prices (current costs) by indexing the existing plant using the Handy-Whitman Index of Public Utility Construction Costs. This measure reflects the current cost of replacing existing plant, rather than the historical cost. Current cost amounts differ from constant dollar amounts to the extent that specific prices have increased more or less rapidly than prices in general.

STATEMENT OF INCOME FROM OPERATIONS ADJUSTED FOR CHANGING PRICES
For the Year Ended December 31, 1979

	Conventional Historical Cost	Constant Dollar Cost in Average 1979 Dollars	Current Dollar Cost in Average 1979 Dollars
(Thousands of Dollars)			
Operating revenues	\$349,981	\$ 349,981	\$ 349,981
Purchased power and production	144,633	144,633	144,633
Other operating and maintenance expenses	94,117	94,117	94,117
Depreciation expense	33,642	58,000	66,000
Income tax expense	12,300	12,300	12,300
Interest expense	80,452	80,452	80,452
Allowance for funds used during construction	(60,015)	(60,015)	(60,015)
Other income	(1,270)	(1,270)	(1,270)
	<u>303,859</u>	<u>328,217</u>	<u>336,217</u>
Income (excluding reduction to net recoverable cost)	<u>\$ 46,122</u>	<u>\$ 21,764*</u>	<u>\$ 13,764</u>
Increase in specific prices (current cost) of plant, held during the year**			\$ 233,000
Reduction to net recoverable cost		\$(173,000)	(51,000)
Effect of increase in general price level			<u>(347,000)</u>
Excess of increase in general price level over increase in specific prices (after reduction to net recoverable cost)			(165,000)
Gain from decline in the dollar's purchasing power on net amounts owed		<u>134,000</u>	<u>134,000</u>
Net		<u>\$ (39,000)</u>	<u>\$ (31,000)</u>

* Including the reduction to net recoverable cost, the loss from operations on a constant dollar basis would have been \$(151,236,000).

** At December 31, 1979, current cost of electric utility plant, net of accumulated depreciation, was \$2,960,000,000 while historical cost (net cost recoverable through depreciation) was \$1,658,797,000.

Depreciation expense is the only item of the historical income statement which has been adjusted in arriving at constant dollar and current cost amounts of income. Revenues and other amounts are considered to reflect the average price levels for the year and accordingly have not been adjusted. Depreciation was determined by applying the Company's actual depreciation rates to the corresponding constant dollar and current cost plant amounts.

No adjustments have been made to the income tax expense, to reduce the complexity of the supplementary information.

Under Public Utility Commissioner of Oregon (PUC) regulations, only the historical cost of plant is recoverable in revenues as depreciation. To reflect this limitation the current cost and constant dollar cost of plant which is not presently recoverable in rates as depreciation is shown as "reduction to net recoverable cost".

To properly reflect the economics of PUC regulation, the reduction to net recoverable cost should be offset by the "gain from decline in the dollar's purchasing power on net amounts owed". Since only the historic cost of depreciation is recoverable, present depreciation provisions are inadequate to maintain the cash flows needed to replace plant. However this factor is offset by debt which will be repaid in dollars having less purchasing power. The "gain from decline in the dollar's purchasing power on net amounts owed" is primarily attributable to the substantial amount of debt which has been used to finance plant.

The following information should be viewed as an approximation rather than as a precise measure of changing prices.

Selected Financial Data Adjusted for Changing Prices

	Years Ended December 31				
	1979	1978	1977	1976	1975
	(Thousands of Average 1979 Dollars)				
Operating revenues	\$ 349,981	\$337,869	\$303,130	\$277,694	\$242,676
Historical Cost Information Adjusted for General Inflation (Constant Dollar Information)					
Income from operations	\$ 21,764				
Income per common share after preferred dividend requirements .	\$.26				
Net assets at year-end	\$ 522,000				
Historical Cost Information Adjusted for Changes in Specific Prices (Current Cost Information)					
Income from operations	\$ 13,764				
Income per common share after preferred dividend requirements .	\$ 0				
Excess of increase in general price level over increase in specific prices (after reduction to net recoverable cost)	\$(165,000)				
Net assets at year-end	\$ 522,000				
General Information					
Gain from decline in the dollar's purchasing power on net amounts owed	\$ 134,000				
Cash dividends declared per common share	\$1.70	\$1.89	\$2.04	\$2.09	\$2.13
Market price per common share at year-end	\$12.29	\$17.95	\$22.63	\$25.41	\$21.57
Average Consumer Price Index	217.4	195.4	181.5	170.5	161.2

APPENDIX C

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

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POWER SALES AGREEMENT
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;

(6) An amount equal to the sum of all permit or license fees (excluding those imposed by City) 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 City may be required to pay in connection with the Project; and

(7) An amount equal to the sum of insurance premiums payable for insuring against the risks specified in Section 12 of this Agreement.

(b) "Bond Ordinance" means the ordinance adopted by the Council of City authorizing the sale of Revenue Bonds to finance or to refinance the Cost of Acquisition and Construction and other costs in connection with the Project and authorizing and approving the Trust Indenture and the terms and conditions therein, receipt of a certified copy of which Purchaser hereby acknowledges.

(c) "Completion of Construction" means the date the latter of the Project generating units to be completed shall have been installed, and, in the written opinion of the Consulting Engineer effective upon delivery of a copy of such opinion to City and Purchaser, is capable of continuous operation. This definition of the term "Completion of Construction" shall be applicable only to this Agreement and need not necessarily apply to such term where used in the Bond Ordinance or in any Construction Contract documents.

(d) "Consulting Engineer" means the professional engineering firm engaged by City, which firm, as of the date of this Agreement, is CH2M Hill, Inc., as evidenced by that Agreement dated November 12, 1976 between CH2M Hill, Inc., and City, Purchaser hereby acknowledges receipt of a copy of that Agreement.

(e) "Construction Cost Index" means the indicator published from time to time by *Engineering News-Record* or a substitute indicator mutually agreed upon. Adjustments required by this Agreement to be made for the Construction Cost Index shall be made once annually and, with respect to any given year, the Index shall be the median value determined with respect to all Indices published for such year.

(f) "Contract Year" means a fiscal period under this Agreement from and after "Completion of Construction." "Contract Year" includes a 12-month period commencing at 12:01 a.m. on September 1 of each year, provided, however, that the first Contract Year hereunder shall commence on the date of Completion of Construction and shall end at 12:01 a.m. on the following September 1.

(g) "Cost of Acquisition and Construction" means all of City's costs of acquisition, construction, and financing of the Project, heretofore or hereafter paid or accrued by City, including but not limited to:

(1) The Bond Reserve Fund in an amount specified in the Trust Indenture not to exceed the maximum amount required for payment of Debt Service in any single future year the Revenue Bonds are outstanding;

(2) Interest accruing on the Revenue Bonds prior to and during construction of the Project, but in no event after October 1, 1982;

(3) All fees and expenses properly paid or incurred in connection with the Project whether paid or incurred prior to or during construction of the Project, which fees and expenses may include, among others, the cost of preliminary surveys, investigations, bond discount, legal and financing costs and engineering;

(4) The cost of all facilities included in the Project; and

(5) The Renewal and Replacement Fund in an amount specified in the Trust Indenture not to exceed 1.25 percent of the sum of the amounts of Subsection 2(g) (3) and 2(g) (4) hereof.

(h) "Debt Service" means with respect to any period the amount to be paid or accrued during said period to retire the principal of and pay the interest and premium, if any, on all Revenue Bonds or other evidences of indebtedness issued at any time by City for the purpose of paying the Cost of Acquisition and Construction and on all bonds issued pursuant to the Bond Ordinance in the amount provided in such Ordinance.

(i) "Initial Date of Delivery" means 12:01 a.m. of the day City first delivers power and energy to Purchaser hereunder from a Project generating unit which date, whether during or after testing of such unit, shall be certified in writing by the Consulting Engineer.

(j) "Initial Delivery Period" means the period of time commencing on the Initial Date of Delivery and ending on the date of Completion of Construction (which latter date coincides with the date of commencement of the first Contract Year hereunder).

(k) "Month" means a calendar month.

(l) "Project" means those properties and facilities constructed or owned by City and financed by proceeds of the Revenue Bonds consisting of, among others, powerhouses, turbines, generators, Power Plants Nos. 1 and 2, substations and switchyards and all associated transmission facilities owned by City interconnecting the Project facilities with facilities of Purchaser used in generating power and energy hereunder, but excluding dams, reservoirs, water conduits and other properties and facilities installed prior to the date of this Agreement.

(m) "Project Output" means the amount of power and energy produced by the Project during the term of this contract as metered at the point of delivery.

(n) "Revenue Bonds" means the bonds issued by City to finance or to refinance the Cost of Acquisition and Construction and other costs in connection with the Project, which Revenue Bonds shall be payable solely from the revenues derived from the sale of power and energy under the terms of this Agreement, all as authorized by the Bond Ordinance.

(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.

(h) 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:

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



Portland General Electric Company

Glen E. Bredemeier Vice President

June 4, 1979

Honorable Francis J. Ivancie
Commissioner of Public Utilities
City of Portland
City Hall
Portland, Oregon 97205

Ragen, Roberts & O'Scannlain
Bond Counsel
3317 First National Bank Tower
Portland, Oregon 97201

Rutan & Tucker
Bond Counsel
One Market Plaza
San Francisco, California 94105

Re: Portland Hydroelectric Project — Amendment No. 1
to System Design Diagram and Operational Instructions

Gentlemen,

Attached hereto is a copy of Amendment No. 1 to System Design Diagram and Operational Instructions attached as Exhibit A to the Power Sales Agreement ("Agreement") between the City of Portland ("City") and Portland General Electric Company ("Purchaser"), dated April 12, 1979.

Pursuant to Section 5(c) of the Agreement, "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."

Pursuant to Section 5(c), Purchaser hereby certifies that the attached Amendment No. 1, dated June 4, 1979, to the System Design Diagram and Operational Instructions as Exhibit A to the Agreement 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.

Received and Acknowledged
this 6 day of June, 1979,
CITY OF PORTLAND, OREGON

Sincerely

Francis J. Ivancie
Glen E. Bredemeier

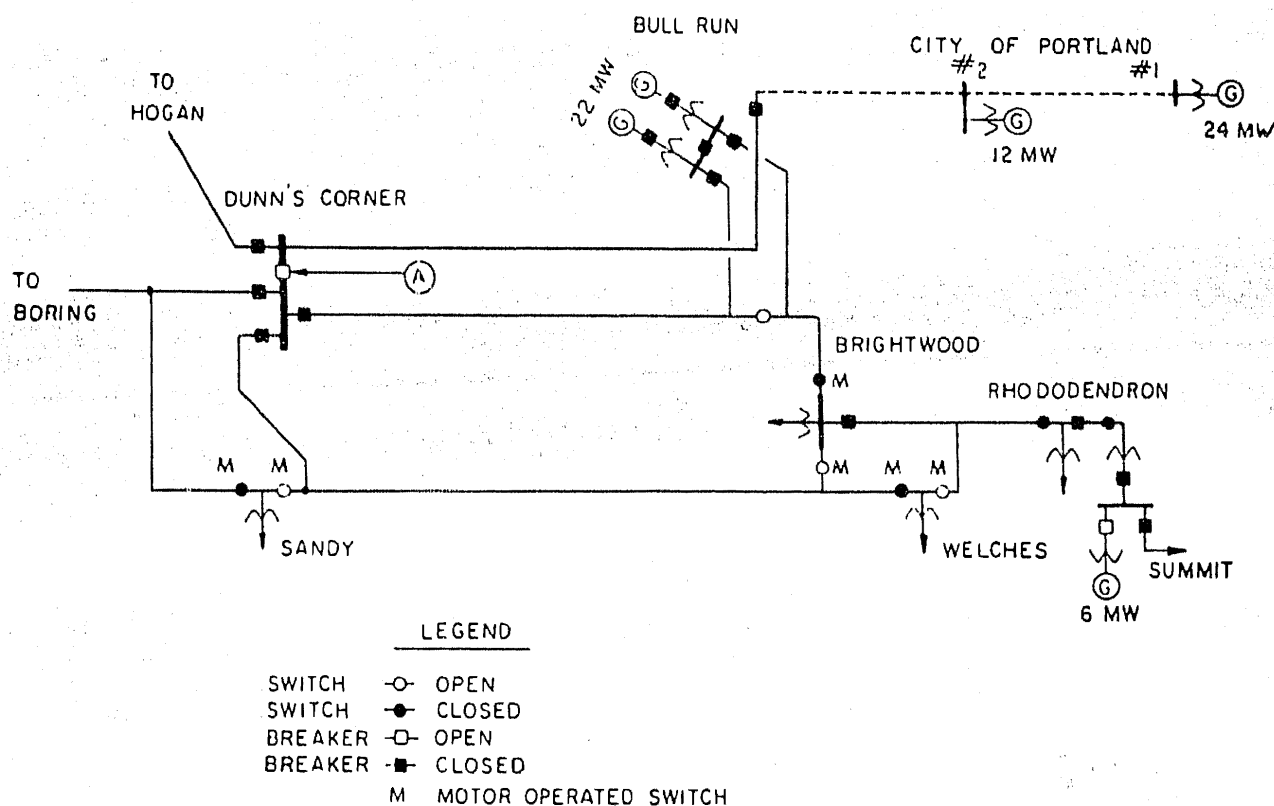
121 S.W. Salmon Street, Portland, Oregon 97204

EXHIBIT A
AMENDMENT NO. 1

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 13 kV feeder from Purchaser's Summit Substation, which load is currently served by the line shown on the diagram below as going from Dunn's Corner to PGE's Bull Run plant and Summit.

Upon completion of the Project but prior to the initial Date of Delivery, Purchaser will have configured Dunn's Corner Substation as shown in the diagram below. Circuit breaker A shown as normally open, if installed, cannot be closed unless either (1) the Purchaser's generators are in operation at Summit, or (2) the City's generating plant is disconnected from the system.



RAGEN, ROBERTS, O' SCANNLAIN, ROBERTSON & NEILL **APPENDIX D**

LAWYERS

1600 ORBANCO BUILDING
1001 S.W. FIFTH AVENUE
PORTLAND, OREGON 97204
TELEPHONE 503-224-1600

TELECOPIER (503) 223-7732

PAUL R. ROMAIN
RODNEY E. LEWIS, JR.
VICTOR D. STIBOLT
VICTORIA S. BAUM
MICHAEL A. LEWIS
MARVA F. GRAHAM
WILLIAM A. MARTIN
OF COUNSEL

RONALD K. RAGEN
RICHARD D. ROBERTS
DIARMUID F. O' SCANNLAIN
WATSON D. ROBERTSON
JAMES K. NEILL, JR.
LEWIS M. NING
DOUGLAS R. COURSON
D. CHARLES MAURITZ
CHRIS L. MULLMANN
GARY M. ANDERSON

September 1, 1980

CITY OF PORTLAND, OREGON
HYDROELECTRIC POWER REVENUE BONDS, SERIES B
\$17,000,000

We have acted as Bond Counsel to the City of Portland, Oregon (the "City") in connection with proceedings for the issuance and sale of \$17,000,000 principal amount of revenue bonds issued by the City, designated "Hydroelectric Power Revenue Bonds, Series B" (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 _____, 1980, (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 Supplemental Trust Indenture (the "Trust Indenture") between the City and the United States National Bank of Oregon.

The bonds are authorized to be issued in coupon form, in the denomination of \$5,000 each or as bonds registered as to both principal and interest in the denomination of \$5,000 or any multiple thereof. The Bonds are dated September 1, 1980, and are 3400 in number, numbered 1 to 3400, 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</u> <u>(both inclusive)</u>	<u>Principal</u> <u>Amount</u>	<u>Maturity Date</u> <u>(October 1)</u>	<u>Interest Rate</u> <u>Per Annum</u>
1 - 29	\$ 145,000	1983	
30 - 61	160,000	1984	
62 - 95	170,000	1985	
96 - 133	190,000	1986	
134 - 174	205,000	1987	
175 - 219	225,000	1988	
220 - 268	245,000	1989	
269 - 322	270,000	1990	
323 - 380	290,000	1991	
381 - 444	320,000	1992	
445 - 514	350,000	1993	
515 - 590	380,000	1994	
591 - 673	415,000	1995	
674 - 764	455,000	1996	
765 - 864	500,000	1997	
865 - 973	545,000	1998	
974 - 1092	595,000	1999	
1093 - 3400	11,540,000	2010	

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

The Bonds are subject to redemption on or after October 1, 1990, 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, 1990 and April 1, 1991	103 %
October 1, 1991 and April 1, 1992	102½ %
October 1, 1992 and April 1, 1993	102 %
October 1, 1993 and April 1, 1994	101½ %
October 1, 1994 and April 1, 1995	101 %
October 1, 1995 and April 1, 1996	100½ %
October 1, 1996 and thereafter	100 %

The Bonds maturing on October 1, 2010, are subject to redemption in part by lot prior to maturity on October 1, 2000 and on each October 1 thereafter, upon payment of the principal amount thereof together with accrued interest to the date fixed for redemption, from amounts credited in a Principal and Sinking Fund Account established by the Trust Indenture. The amount which shall be credited to such Principal and Sinking Fund Account 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>
2000	\$ 650,000
2001	705,000
2002	775,000
2003	845,000
2004	925,000
2005	1,010,000
2006	1,100,000
2007	1,205,000
2008	1,315,000
2009	1,440,000
2010	1,570,000

The Bonds are also redeemable out of proceeds received by the City from insurance and condemnation under certain conditions provided in the Trust 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 a price of 103% of the principal amount if redeemed prior to October 1, 1990 and at par if redeemed on October 1, 1990 or thereafter. If the Bonds are not redeemed upon a final determination that the interest thereon is taxable as described in the Trust 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. As provided in the Trust Indenture, the Bonds rank equally with the issue of \$38,000,000 City of Portland, Oregon Hydroelectric Power Revenue Bonds date June 1, 1979, as to security, upon the terms and subject to the conditions set forth in the Trust Indenture.

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

5. The City has entered into a certain agreement, entitled "Power Sales Agreement" and dated as of April 12, 1979 (the "Agreement"), with the 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. The Agreement provides that (a) the Company shall (i) distribute the electric output of the Project in such a manner as to confine the output from the Project to the general populace within two contiguous counties, and (ii) hold the City harmless from any loss, cost or expense arising from the failure of the Company to distribute the electric output of the Project in accordance with the System Design Diagram and operational instructions designed to so restrict the distribution of the electric output. Under existing statutes, interest on the Bonds is also exempt from State of Oregon personal income taxes.

Very truly yours,

RAGEN, ROBERTS, O'SCANNLAIN,
ROBERTSON & NEILL

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

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

OFFICIAL NOTICE OF BOND SALE

**CITY OF PORTLAND
COUNTY OF MULTNOMAH
STATE OF OREGON
HYDROELECTRIC POWER REVENUE BONDS, SERIES B**

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 August 27, 1980, 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 August 27, 1980, such consideration to commence at 11 o'clock a.m. Pacific Daylight Time.

ISSUE: SEVENTEEN MILLION DOLLARS (\$17,000,000) consisting of 3,400 coupon bonds in denominations of FIVE THOUSAND DOLLARS (\$5,000), all dated September 1, 1980.

INTEREST RATE: Maximum not to exceed a net effective rate of ten percent (10%) per annum, the first interest payment due on October 1, 1980 for one month's interest and semiannually thereafter on October 1 and April 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 ten percent (10%) 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 1999, and term bonds shall be due October 1, 2010 as follows:

<u>Amount</u>	<u>Date</u>	<u>Amount</u>	<u>Date</u>
\$145,000	1983	\$ 320,000	1992
160,000	1984	350,000	1993
170,000	1985	380,000	1994
190,000	1986	415,000	1995
205,000	1987	455,000	1996
225,000	1988	500,000	1997
245,000	1989	545,000	1998
270,000	1990	595,000	1999
290,000	1991	11,540,000	2010

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, 1990 or April 1, 1991	103%
October 1, 1991 or April 1, 1992	102½%
October 1, 1992 or April 1, 1993	102%
October 1, 1993 or April 1, 1994	101½%
October 1, 1994 or April 1, 1995	101%
October 1, 1995 or April 1, 1996	100½%
October 1, 1996 or thereafter	100%

The Bonds maturing on October 1, 2010 are subject to redemption in part by lot prior to maturity, on any interest payment date on or after October 1, 2000, 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 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>
2000	\$ 650,000	2006	\$1,100,000
2001	705,000	2007	1,205,000
2002	775,000	2008	1,315,000
2003	845,000	2009	1,440,000
2004	925,000	2010	1,570,000
2005	1,010,000		

The bonds are also redeemable out of proceeds received from insurance or condemnation and are immediately redeemable if any act or omission to act of the Purchaser as defined in the Indenture results 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, 1991 and at par if redeemed on or after October 1, 1991. 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, Robertson & Neill, Portland, Oregon, 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 September 17, 1980.

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 THREE HUNDRED FORTY THOUSAND DOLLARS (\$340,000) 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 purchasers 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

OFFICIAL BID FORM FOR

HYDROELECTRIC POWER REVENUE BONDS, SERIES B
CITY OF PORTLAND, OREGON

August 27, 1980

Mr. George Yerkovich, Auditor
City of Portland, Oregon
City Hall
1220 S.W. Fifth Avenue
Portland, Oregon 97204

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 \$17,000,000 Hydroelectric Power Revenue Bonds, Series B 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	\$145,000	%	1992	\$ 320,000	%
1984	160,000		1993	350,000	
1985	170,000		1994	380,000	
1986	190,000		1995	415,000	
1987	205,000		1996	455,000	
1988	225,000		1997	500,000	
1989	245,000		1998	545,000	
1990	270,000		1999	595,000	
1991	290,000		2010	11,540,000	

We enclose herewith a certified or cashier's check payable to the order of the City of Portland, Oregon, in the amount of \$340,000 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 September 1, 1980	\$ _____
Plus the amount of discount bid below \$	\$ _____
Less the amount of premium bid above \$	\$ _____
Net interest cost (in dollars)	\$ _____
Interest Cost*	_____ %

*Computed according to the Notice of Sale.

ORDINANCE NO. 150167

An Ordinance authorizing and providing for the issuance of \$17,000,000 Hydroelectric Power Revenue Bonds, Series B, of the City of Portland, Oregon; approving and authorizing the execution of a Supplemental 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 issuance and sale of \$38,000,000 Hydroelectric Power Revenue Bonds of the City of Portland, Oregon for the purpose of providing funds to finance part of hydroelectric power generating facilities on the Bull Run River in Multnomah and Clackamas Counties, Oregon (the "Project"). The Bonds are to be payable solely from the gross revenues received by the City under a Power Sales Agreement between Portland General Electric Company and the City providing for the sale of power generated by the Project.
2. The City Council has been notified by an Independent Engineer, as defined in the Trust Indenture between the City and United States National Bank of Oregon, Portland, Oregon, as Trustee (the Trust Indenture), that an additional bond issue of \$17,000,000 is needed in order to provide sufficient funds to complete the Project. Pursuant to the requirements of the Trust Indenture relating to the initial issue of Bonds, the Trustee has authorized a Supplemental Trust Indenture between the City and the Trustee concerning the proposed issue of additional bonds.
3. There is attached hereto and made a part of this Ordinance Exhibit A, being the proposed Supplemental 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 Supplemental 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.

ORDINANCE No.

- 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 \$17,000,000, and on such terms and conditions as are described in the Supplemental Trust Indenture attached as Exhibit A, and to bear interest at such rate or rates as shall be fixed by the Council at the time of bond sale 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 Supplemental 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 Supplemental Trust Indenture may be had only against the security for the Bonds as provided therein.

Section 4. The Commissioner of Public Utilities and the Auditor are hereby authorized and directed to execute the Supplemental Trust Indenture, to be dated as of September 1, 1980, 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 Supplemental Trust Indenture, are hereby approved in all respects, and action by the Council 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 Commissioner of Public Utilities, 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 Supplemental Trust Indenture and the Bonds.

Section 6. The Council declares that an emergency exists in order that approval of the Supplemental 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 shall be in force and effect from and after its passage by the Council.

Passed by the Council, **AUG 6 1980**

Commissioner Ivancie
J. L. Doane/jr
July 30, 1980
BUC #64200003

Attest:


Auditor of the City of Portland

Calendar No. 2830

ORDINANCE No. 150167

Title

An Ordinance authorizing and providing for the issuance of \$17,000,000 Hydroelectric Power Revenue Bonds, Series B, of the City of Portland, Oregon; approving and authorizing the execution of a Supplemental 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.

Filed JUL 31 1980

GEORGE YERKOVICH
Auditor of the CITY OF PORTLAND

By George Powell
Deputy

THE COMMISSIONERS VOTED AS FOLLOWS:		
	Yeas	Nays
Ivancie		
Jordan		
Lindberg		
Schwab	—————	
McCready		

FOUR-FIFTHS CALENDAR	
Ivancie	
Jordan	
Lindberg	
Schwab	
McCready	

INTRODUCED BY
Commissioner Ivancie

NOTED BY THE COMMISSIONER
Affairs
Finance and Administration
Safety
Utilities <i>FJI May</i>
Works

BUREAU APPROVAL
Bureau: Hydroelectric Power
Prepared By: J. L. Doane
Date: July 30, 1980
Budget Impact Review:
<input checked="" type="checkbox"/> Completed <input type="checkbox"/> Not required
Bureau Head: <i>James L. Doane</i> James L. Doane, Manager

CALENDAR	
Consent	Regular <input checked="" type="checkbox"/>

NOTED BY
City Attorney
City Auditor
City Engineer

↑
End of Volume 421

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Start of Volume 422

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