REVIEW OF FEDERAL TAX RETURNS FOR ENRON CORPORATION & SUBSIDIARIES IN ORDER TO ASSESS THE ADEQUACY OF OREGON EXCISE TAX FILINGS FOR PORTLAND GENERAL ELECTRIC CORPORATION

1997 through 2003

Prepared for: City of Portland

Prepared by: MOSS ADAMS LLP

Dated: April 14, 2008

Moss Adams LLP ("Moss Adams," "we," "us," or "our") has been retained by the City of Portland ("City") to offer comments on reported zero excise/income tax liabilities to the State of Oregon by Portland General Electric Corporation ("PGE") for the years 1997 through 2003. Moss Adams has also been retained to offer suggestions for alternative ways the State of Oregon may tax corporate taxpayers such as PGE in the future.

As agreed, we are available to discuss these findings with you privately, with you and PGE, and/or in public hearing.

Limited Scope of this Engagement

This engagement is limited to tax consultation only. We understand that the City is also looking at broader questions for the same period relating to other aspects of the operation of PGE, such as the mechanics of rate setting by such organizations as the Oregon Public Utility Commission ("PUC"). These other matters are beyond the scope of this engagement.

Access to Documents and Records

The information we had access to for purposes of fulfilling this engagement is limited. The documents we have relied upon have been supplied to us through the City, as described below. We have not performed any procedures to verify the authenticity of these documents.

On September 21, 2005 the City Council passed Resolution No. 36337, which directed the City Attorney to request information and documents from PGE regarding income taxes collected from rate payers and debts owed by Enron to PGE. PGE provided information to the City on October 12 and again on November 1 of 2005.

The information supplied by PGE was provided to Moss Adams. The documents included Affiliated Interest Reports, Rate Making History of the Trojan Nuclear Plant, PUC Rate Setting Schedules, Rate Schedules, Proof of Claims from Bankruptcy Court, Annual Results of Operations Reports to PUC 1997 through 2004, and 10-K Filings with the Securities and Exchange Commission for the same period.

The information received also included schedules of tax payments made by PGE to the Internal Revenue Service for income taxes and to the Oregon Department of Revenue for income/excise taxes, both for the years 1997 through 2004 (your notation "Attachments 003-A and 007-A").

The City requested additional information, but PGE brought suit in Multnomah County Circuit Court, Case No. 0604-04242, against the City and the State of Oregon to block the related subpoena. The case went to mediation, and PGE subsequently provided additional information to the City, and promised additional records to be made available to a consultant retained by the

City on condition that the consultant sign a confidentiality agreement stipulated by PGE and the City.

Moss Adams has not signed the Confidentiality Agreement and as a result has not received any of the PGE records conditioned by that agreement.

By our own research we located a report prepared by the staff of the Joint Committee on Taxation, which investigated certain federal tax issues raised by the collapse of Enron. [1]

Beside the records mentioned above, Moss Adams has been provided electronic copies of federal consolidated corporate income tax returns for Enron and subsidiaries for the years 1997 through 2003. These were provided to us by the City. It is our understanding that the City obtained these documents from another consultant to the City – Robert McCullough – who found them in discovery of documents related to a Federal Energy Regulatory Commission adversarial proceeding against Enron in January 2007.

It is likely that additional federal tax filings were made by Enron and/or PGE during these years. Additionally, there may be amended returns we do not have or changes made to the returns by governmental agencies, such as the Internal Revenue Service. There may have been a "short-period" 1997 return filed by the PGE consolidated group for the first six months of that year before they became an affiliated member of the Enron consolidated group. Also, PGE and its subsidiaries were apparently disaffiliated from the consolidated Enron group in May 2001 and then re-affiliated in December 2002. This suggests that separate returns were filed for the PGE group – one for 2001 and another for 2002 – in addition to the inclusion of PGE and its subsidiaries in the Enron consolidated returns for those years. Moss Adams has not seen or reviewed these likely additional filings, nor have we seen any Oregon tax filings for Enron and/or PGE.

As Agreed, a draft of this report was provided to the City approximately a month before it was finalized. In turn, the City provided a copy to PGE for any comments they might have. PGE's written comments are attached to this final report as Exhibit C. Included as part of this Exhibit are additional comments from Moss Adams in response to the PGE letter.

Professional Code of Conduct

Moss Adams is a firm of certified public accountants. Our licensure is state by state. There is no national licensure. There is a code of professional conduct we are bound by for this work under Oregon law.

One such rule is contained at OAR 801-030-0015, titled "Confidential client information". This rule prohibits licensees from voluntarily disclosing information obtained from a client without prior consent. Moss Adams does not believe PGE is or ever has been a client of our Firm. The

[1] REPORT OF INVESTIGATION OF ENRON CORPORATION AND RELATED ENTTIES REGARDING FEDERAL TAX AND COMPENSATION ISSUES, AND POLICY RECOMMENDATIONS, VOLUME I: REPORT, Prepared by the Staff of the JOINT COMMITTEE ON TAXATIION, At the request of Senator Max Baucus and Senator Charles E. Grassley of the SENATE COMMITTEE ON FINANCE (May 2003) See pages 265-273

information we discuss herein was obtained from public records and from the City. We do not believe this engagement violates this rule.

Another rule is contained at OAR 801-030-0005 (2), titled "Integrity and Objectivity". This rule requires that licensees be free of conflicts of interest when providing professional services. This can happen, for example, when two adversarial clients are both relying on our advice. We do not view our work in this engagement as being in violation of this rule because we only have one client here, the City. Again, we do not believe we have any kind of client relationship with PGE, nor do we know of any reason why PGE would expect us to be an advocate for their interests in this matter.

Another rule contained in this same OAR requires that licensees maintain objectivity in their work. Moss Adams is the outside CPA firm responsible for auditing the City's financial statements, and we have been in this role for several years. The City is a significant attest client of Moss Adams. However, the City has not attempted to influence the outcome of our findings. The City seems indifferent to the outcome, as are we. The City's goal in this matter does not seem to be financial, but instead to be *amicus curiae* to the ratepayer/customers of PGE, who are also citizens of the city of Portland. Accordingly, we do not view our services as lacking objectivity in this matter.

Finally, there is a rule to be independent of the clients we do attest work for. In Oregon this rule is contained in OAR 801-030-005 (1), titled "Independence." There are other regulatory bodies that set similar but different independence standards for the attest work CPA's perform, as well. We do not believe this engagement impairs our independence for the City's audit under any of the promulgated independence standards, including Government Audit Standards. The action the City might take as a result of our findings in this matter, if any, will not affect the audit work we are separately engaged to perform. As required by these standards we have confirmed our answer with appropriate representatives of the City prior to accepting this engagement, who have concurred with our conclusion that our independence is not impaired as a result of the performance of our work in connection with this engagement.

Summary of Facts

Based on the documents we have reviewed, it is our understanding that PGE was acquired by Enron Corporation on July 1, 1997. Income for PGE was included in the federal consolidated corporate income tax returns for Enron Corporation and Subsidiaries for the years 1997 through 2003.

Exhibit A to this report is a reconciliation of Net Income in these federal tax returns for PGE and its subsidiaries to Net Income in the corresponding SEC 10-K filings. As discussed herein, we agreed these amounts between documents, except for 1997, 2001 and 2002. We have also agreed Net Operating Income in the 10-K filings to the corresponding annual Reports of Operation by PGE made to the PUC. The Net Operating Income agreed in all years.

In the Enron consolidated federal tax return there is short-term capital gain reported of approximately $5.6 billion from a "deemed sale" of something called the "Chiricahua Partnerships I – XIV." This gain is included in federal consolidated taxable income of approximately $3.1 billion for that year. This gain caused Enron to pay federal taxes of approximately $63 million for the 2000 tax year.

In 2001, Enron caused these partnerships to be liquidated, which triggered a loss of approximately the same amount. Approximately $1.5 billion of the loss was offset against other capital gains and thereby included in the federal consolidated taxable loss of approximately $4.6 billion for that year. Approximately $3.9 billion of the loss was excluded from the current year taxable loss and carried forward separately as a capital loss carryover.

According to the Joint Committee report, these partnerships were used, in part, to recognize gain for federal tax purposes "to close out IRS audit examinations on back years from which there were loss carryovers and believed that to do so they needed to trigger enough gain so that there was a tax liability for 2000". Within Enron this tax play was known as "Project NOLy". It utilized the constructive sale rules of IRC Section 1259 by segregating the gain portion of existing financial contracts into partnerships.

Disclosure in the 2002 federal tax return indicates that Enron Corporation contributed 100 percent of the outstanding stock of PGE to a newly formed partnership (no connection to the partnerships used in Project NOLy) on May 7, 2001 for financing reasons. The disclosure states that the financing strategy was later abandoned because Enron Corporation filed for U.S. bankruptcy protection in December 2001. The disclosure finally explains that the partnership distributed the PGE stock back to Enron Corporation with the bankruptcy court's permission on December 24, 2002. The six subsidiaries of PGE were included as part of these two transfers.

The disclosure also indicates that PGE and its subsidiaries computed an overall taxable loss of $14,104,863 for the period May 8, 2001 through December 31, 2001. It also indicates that the taxable income for the same group for the period January 1, 2002 through December 23, 2002 was entirely offset by federal net operating loss ("NOL") carryforwards without disclosing the amount of the excluded entity income. Likewise, for both excluded periods, we were unable to find any further breakdown of taxable income or loss among the seven corporations within the PGE subgroup.

The same 2002 disclosure indicates that a separate federal return was filed for PGE and its subsidiaries for the period January 1 through December 23, 2002. The disclosure indicates that the PGE group was in Alternative Minimum Tax ("AMT") for that period in the amount of $871,583. This amount is consistent, but different, with the amount of $789,510 voluntarily reported by PGE to the City (your notation "Attachment 003-A"). This fact is consistent with the disclosure noted above that income for this period was offset with NOL carryovers for regular tax purpose, because AMT limits NOL carryovers for this alternative calculation to 90 percent of Alternative Minimum Taxable Income.

Exhibit B to this report summarizes some key numbers from the Enron consolidated returns for 1997 through 2003. The Exhibit lists federal taxable income or loss for the entire consolidated group by year and federal taxable income for PGE, excluding the six subsidiaries, for each year. Finally, using an assumed overall Oregon apportionment percentage of 10% (as noted, a different rate is assumed for some years), Exhibit B lists a computed Oregon taxable income or loss by year.

Of note in the returns is that at the consolidated level the Enron group reported federal taxable losses in the millions, and even more frequently in the billions, of dollars for all but one year, 2000. Included in those amounts was taxable income from PGE in every year.

Technical Tax Summary – Federal

Generally, each corporate entity that conducts business by collecting, or earning, any revenues during a tax year must pay tax on its taxable income, if any, and file an annual tax return.

An exception is allowed for related corporations with a common parent to file on a consolidated basis (see Internal Revenue Code ("IRC") Section 1501). IRC Section 1502 authorizes legislative regulations, which have been issued by the Treasury Department as Income Tax Regulations, Sections 1.1502-1 through -100.

IRC Section 1504 defines the relationship that must exist between corporations to be considered part of an affiliated group eligible to file on a consolidated basis. For example, there must be a common parent, all of the corporations must generally be domestic, and ownership must be at least 80 percent control of the vote and the value to be considered affiliated.

Presently, IRC Section 172 provides that corporations may carry losses back two years and forward 20 years to offset taxable income. These rules are available to affiliated groups filing consolidated returns at the group level.

Filing a consolidated return is elective, but once elected it is mandatory. If a corporation included in a consolidated return becomes un-affiliated, it may not be included in the consolidated return for five years, even if it becomes re-affiliated sooner than that (see Section 1504(a)(3)). The Secretary of the Treasury may waive this rule. Guidance for when waiver will be granted is provided in Revenue Procedure 2002-32.

The rules for when and how to file consolidated returns is, more than anything else, about the offsetting of income and losses. Often this results in the offsetting of income of one corporation during the current year by the losses of another. Otherwise, it is about carrying losses over from different tax years to offset against consolidated taxable income in the current year.

A very large part of the Treasury regulations on consolidated returns deal with when carryover and carryback losses may be utilized where there have been changes in the status of members in the group. These rules also provide for limitations that arise at the time of the termination of an affiliation. For example, if a separate corporation has a loss before joining a consolidated group, there are limitations on how the losses carried forward may be utilized by the consolidated group. These are generally referred to as Separate Return Limitation Year ("SRLY") loss rules (see IRC Reg. Sec. 1.1502-21).

Conversely, the rules would apply where a member of a loss group subsequently files a return separate from the group. There are limitations for when and how these losses are available to the un-affiliated member.

Technical Tax Summary – Oregon

Generally, ORS 317 imposes its Corporation excise/income tax on each corporation doing business within Oregon.
Prior to 1985, Oregon, like California, required related corporations involved in what has been called a "unitary business" to combine the income and loss of all the corporations into a single return, and a single determination of taxable income or loss, and a single computation of tax. These corporations could be foreign or domestic. They could be in a parent-subsidiary relationship or in a brother-sister relationship. The unitary concept was viewed as a weapon to combat gamesmanship by corporate taxpayers who were using multiple entity structures to position state taxable income to low rate states and away from high rate states.

By 1984 our international trading partners (primarily England and Japan) were complaining about the difficulties of complying with the information requests by states like Oregon. At the same time the IRS was becoming more active in what is called the "transfer pricing" area of IRC Section 481 to police the same kind of gamesmanship at the international level. In that year Oregon changed its rules effective for tax years beginning after January 1, 1985.

The changes essentially eliminated the "unitary tax" in Oregon, but some of the jargon still continues in the statutes and administrative rules. Clearly, if a corporation is not filing as part of a federal consolidated group it can only file as a separate taxpayer under the post 1984 rules. And, if a consolidated federal return is filed, any unitary affiliated member must be included in the Oregon consolidated tax return and computation of tax. Provided there are no non-unitary affiliates, Oregon income before adjustments will equal federal consolidated income or loss. If multiple affiliates are doing business here, one return will satisfy the filing requirements for all of them (see ORS 317.705 through .720). The Oregon tax law provides that if there is more than one unitary business within the consolidated group they will have to be separated out. However, this would be extremely rare. All of the efforts of states like Oregon and California from the unitary tax hay-days prior to this change were to find one unitary business, not several. The language is still there, but its use is very limited. We do not have enough information to determine whether any non-unitary position was taken in Oregon by Enron and its affiliates.

If a corporation is doing business in Oregon and other states, whether filing separately or consolidated, it is required to apportion its income between Oregon and the other states. The apportionment percentage, for the years at issue, was based on a relative percentage of cumulative property, payroll and sales in Oregon to all states for all companies included in the consolidated return. This Oregon apportionment percentage is then multiplied by consolidated income after the required Oregon specific modifications. Oregon tax is then computed from this Oregon apportioned taxable income.

Finally, there is another method of measuring taxable income for multistate taxpayers between Oregon and other states. It is an all or nothing method known as "non-business income" which is allocated to a tax home rather than apportioned, as is described above. By definition non-business income is infrequent in nature and is not a regular part of a taxpayer's trade or business. Apportionment of income and allocation of income are mutually exclusive methods. Before apportionment is applied, non-business income (if any) is excluded from the apportionment base. Oregon provides for these rules in ORS 314.625 through .645.

Tax Analysis

Most of the PGE tax returns for the years we reviewed are unremarkable. They are what one would expect given the similarity between federal and Oregon law for consolidated corporate tax reporting. In other words, it is not surprising that the consolidated group can report losses to Oregon even though its primary activity here is consistently profitable.

The 1998 year is a good example of this. The overall taxable loss was approximately $735 million. Assuming a 10 percent apportionment rate to Oregon, a tax loss of approximately $74 million would have been reported to Oregon for that year, notwithstanding that separate accounting (or a non-unitary PGE) would have resulted in $217 million of reportable taxable income in Oregon for that year.

Tax year 2000 is remarkable because it is the one year of those reviewed that the Enron consolidated group reported income. In fact, they reported over $3 billion of income on their federal return for that year. By using our same assumption of 10 percent for that year, we would expect approximately $310 million of taxable income to be reported to Oregon, and absent loss carryovers, at a 6.6 percent tax rate, the Enron group would have a tax bill for that year of approximately $20 million.

It is also remarkable that PGE represents it paid no tax to Oregon for the year 2000. This is possible because of NOL carryovers of prior year losses. You can see in Exhibit B that the prior year losses are approximately $200 million, which would still leave taxable income in Oregon of approximately $100 million and a tax liability of approximately $6 million. It is likely that actual apportionment percentages to Oregon by the consolidated group were not the same from 1997 through 2000. To have enough NOL to cover the year 2000 taxable income to Oregon before NOLs, one of several things could have happened. One possibility is that apportionment percentages were higher in the loss years than in the income year. Another is that Enron already had some activity in Oregon causing loss carryovers from prior to 1997 when Enron bought PGE. See PGE response at Exhibit C.

Another possibility is that Enron may have taken the position that these short-term capital gains were "non-business income" and therefore allocated them entirely away from the taxable base subject to tax in Oregon. We do not have enough information to determine whether a non-business income position was taken in Oregon by Enron or whether it would have been appropriate to do so.

Tax year 2001 is remarkable because PGE and its six subsidiaries disaffiliated with the consolidated group on May 7 of that year. As it should, the Enron group included approximately $108 million of income related to the PGE group in its consolidated return for that year, resulting in a consolidated loss of over $4 billion. Enron should have filed a full year return in Oregon, which only reported income from PGE and subsidiaries for the short period January 1 through May 7. A separate return should have been filed for the PGE group with Oregon for the short-period May 8 through December 31. Disclosure of the disaffiliation of PGE indicates that the excluded group had a taxable loss for the remainder of 2001 of approximately $14 million. Another remarkable item in the separate short-period of 2001 is a financial statement write-off of $79 million for "uncollectible receivables from affiliates.". Several rules would seem to apply to preclude this loss from being deductible for tax purposes.

Tax year 2002 is remarkable because the PGE group re-affiliated with the group for the last week of the year by invoking an IRS procedure for automatic permission from the Treasury Secretary to waive the five year out rule of IRC Section 1504. Consistent with this waiver, Enron reported approximately $2.7 million of income related to the PGE group for the one week period in its consolidated return. Again, the included period would be part of the Enron filing with Oregon for the full year, and a separate return for the PGE group should have been filed for that year for the period of January 1 through December 23. Similarly, there should have been separate returns filed for federal purposes, which we do not have.

The separate federal income tax filings for both 2001 and 2002 presented an opportunity to the PGE group to elect their own consolidated filing. If they did, they would also file on a consolidated basis for Oregon tax purposes. Otherwise, all seven corporations would need to file separate for federal purposes and determine whether an Oregon filing is required for each year. This would depend on whether or not they were actually doing business in the state at that time. We know PGE was doing business in Oregon. One way or another, PGE would have had to have made separate filings in Oregon for these two years.

Disclosure also indicates that there was income for the PGE group for the first 51 weeks of 2002, but the amount is not disclosed. Further disclosure was dismissed by the Enron in-house tax staff who put this disclosure together in satisfaction of the information required for automatic approval of the Sec. 1504 waiver as specified in Rev. Proc. 2002-32. For federal purposes it seems impossible to us that net operating losses are available to offset this income (other than the $14 million loss for the separate year in 2001). We can see that Enron is reporting very large NOLs coming into the 2002 year, but we do not understand how any significant amount can be available to the PGE group. Reg. Sec. 1.1502-21 regulations of the consolidated group rules does provide for an allocation of unused prior year losses to a member going out of the group, but the way it works is to allocate the loss among the loss members. PGE has had income through this entire time frame. We cannot understand how any measurable amount of the consolidated NOL can be available to the separate returns of PGE in 2002. See PGE response at Exhibit C.

Likewise it should be with Oregon. These rules are incorporated by reference in OAR 150-317.476 (2).

Future Modification of Oregon Rules

We have been advised that a utility in Oregon may build some taxes, such as Oregon excise/income taxes, into the rate structure they charge their customers. The problem that arises is due to the fact that the utility makes this computation on a separate company basis for regulatory purposes, but the reporting and computation of taxes actually owed to Oregon is done on a consolidated basis as is described above.

Oregon's income tax rules are based on federal rules and then modified as considered necessary to accommodate special circumstances of the State. Although Oregon's tax rules have worked well for the past 20 years, there are clearly some modifications that could be made to address concerns raised by situations such as Enron and PGE.

For example, a possible modification to Oregon Revised Statutes (ORS) could be made to add a provision to ORS 317.710, Corporate Tax Return Requirements. Along the lines discussed herein, a new provision say "5(d)", could be added as follows:

"(d) If any corporation is subject to rate setting by the Oregon Public Utility Commission, the corporation shall not be included in a consolidated state return under paragraph (a) of this subsection. Instead the corporation will be required to file a separate return under this chapter."

The change in Oregon's tax laws would have to come through the legislative process. Or, to say it a different way, this is a political decision, and Moss Adams is making no recommendation either way. But, excluding utilities, for example, would easily fit within the statutory structure of Oregon's tax law.

Summary

With the limited information that has been made available to us, it does not appear to be unreasonable that the Enron group would have no tax liability to the state of Oregon for the years 1997 through 2003. It is also possible that PGE could have had significant tax liabilities to the State for each of those years had the company filed on a separate basis.

Based on our review we question the reported zero tax liability for the Enron consolidated group to Oregon for the year 2000. We concede that this question may simply be answered by production of additional documents for our benefit.

Notwithstanding the past, Oregon's rules for unitary filings may be modified to avoid some, or all, of these issues in the future.

Exhibit A

ENRON CORP. & SUBS.
Portland General Electric Group of entities
Net Book Income 1997 through 2003
Federal Form 1120, Schedule M-1
(000's)

Year		121 SW Salmon EIN 93-0658904	PGEC EIN 93-0256820	PG Trans Corp. EIN 93-1207722	PG Res. Dev. EIN 93-1314602	Efficiency Services EIN 93-1327689	Salmon Springs 93-1243246	WTC NW EIN 93-0986359	TOTAL	10-K
1997	(a)	302	49,832	0	N/A	N/A	N/A	(115)	50,019	126,000
1998		(265)	137,490	0	N/A	N/A	139	(280)	137,084	137,000
1999		(268)	127,891	0	N/A	N/A	162	(283)	127,502	128,000
2000		(26)	141,191	0	N/A	N/A	204	(41)	141,328	141,000
2001	(b)	1	63,699	0	0	N/A	81	(3)	63,778	23,000
2002	(c)	0	1,954	0	0	0	0	0	1,954	66,000
2003		28	57,618	0	(554)	(110)	208	3	57,193	56,000

Notes

(a) Includes short year July 1 through December 31
(b) Includes short year January 1 through May 7
(c) Includes short year December 24 through December 31

ENRON CORP. & SUBS.
Federal Form 1120, Schedule M-1
Taxable Years 1997 through 2003 (000's)

Year	Consolidated Income	PGE Tax. Income		(a) Assumed Apportionment %	Oregon Apportioned Income
1997	(493,686)	96,991	(b)	5%	(24,684)
1998	(734,495)	216,569		10%	(73,450)
1999	(1,073,813)	187,977		10%	(107,381)
2000	3,107,813	262,421		10%	310,781
2001	(4,595,223)	108,081	(c)	5%	(229,761)
2002	(5,141,424)	2,476	(d)	0%	-
2003	(439,522)	155,492		10%	(43,952)

Notes

(a) Apportionment is assumed to be 10% for Oregon for all years, except 1997 and 2001 (5%) and 2002 (0%).
(b) PGE joined the consolidated group on July 1, 1997.
(c) PGE Included in consolidated group January 1 through May 7.
(d) PGE Re-affiliated as of December 24 through December 31.

Exhibit B

Exhibit C

PGE
Portland General Electric Company
Legal Department
121 SW Salmon Street • Portland, Oregon 97204
(503) 464-8861 • Facsimile (503) 464-2200

David A. Aamodt
Associate General Counsel

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SENT VIA FACSIMILE (503) 823-3089 AND FIRST CLASS MAIL

March 17, 2008

Benjamin Walters
Senior Deputy City Attorney
Office of the City Attorney
1221 SW 4th Avenue, Room 430
Portland, OR 97204

Re: *Portland General Electric Company v. City of Portland*
MCCC Case No. 0604-04242

Dear Ben:

Thank you for your letter dated March 5, 2008, enclosing the draft version of Moss Adams' report based on publicly available information. We have reviewed the draft report and identified two issues requiring comment. I've attached these comments for your review, along with page 43 from PGE's 2000 SEC form 10-K and page 83 from PGE's 2002 SEC form 10-K.

If you or representatives for Moss Adams have any questions regarding the foregoing, please do not hesitate to contact either Lisa Kaner or myself.

Very truly yours,

[signature], for

David A. Aamodt
Associate General Counsel

Enclosures
c: Lisa Kaner
Bob Tamlyn

Draft Report – Review of Enron Tax Returns
by Moss Adams LLP

Issue 1:
On page seven the fourth paragraph of the draft report states, in part,

> *"It is also remarkable that PGE represents it paid no tax to Oregon for the year 2000. This is possible because of NOL carryovers of prior year losses. You can see in Exhibit A that the prior year losses are approximately $200 million, ..."*

PGE believes that this paragraph concerns Enron's 2000 tax filing with Oregon- not PGE's. PGE was a part of the Enron consolidated tax filing in 2000 and paid taxes up to Enron. See enclosed page 43 from PGE SEC Form 10-K for the year 2000, which lists current state and local tax expense for PGE of $17 million. The reference to Exhibit A is also incorrect. Exhibit A is PGE's net book income. We believe Moss Adams was referring to Enron's prior year losses as listed on Exhibit B and totaling approximately $200 million for the years prior to 2000.

Issue 2:
On page eight of the report the fourth paragraph questions whether PGE used Enron NOLs from prior years to offset its taxable income for the first 51 week period in 2002 during which PGE was disaffiliated from Enron. The draft report says in the last sentence of this paragraph that,

> *"We cannot understand how any measurable amount of the consolidated NOL can be available to the separate returns of PGE in 2002"*

PGE did not use Enron NOLs to offset its taxable income for this period. PGE had a very small amount of taxable income for this 51 week period in 2002, principally due to high power costs. As support PGE has included page 83 from 2002 SEC Form 10-K listing the relatively small amount ($5 million) of current federal tax expense for 2002. PGE's own NOL from prior year was used to offset this 2002 taxable income, which is appropriate.

This change in the report will also affect page 9 in the second paragraph of the Summary where Moss Adams states that,

> *"And, for different reasons we question the use of NOL carryovers from the Enron consolidated group being available to the disaffiliated PGE filings with both the Internal Revenue Service and the Oregon Department of Revenue."*

As previously mentioned, PGE did not utilize Enron NOL carryovers.

Employee Stock Ownership Plan
PGE participated in the PGH Retirement Savings Plan through June 30, 1999. On July 1, 1999, the plan merged into the Enron Savings Plan and PGE continued participation. The successor plan includes an Employee Stock Ownership Plan (ESOP). Previously matched 50% by employer contributions, employee contributions up to 6% of base pay will be matched 100% by employer contributions in the form of Enron common stock, beginning in 2001.

All Employee Stock Option Plan
Enron stock options were granted to PGE employees on December 31, 1997. The options were granted at the fair value of the stock at the date of the grant. One-third of the options vested each year in 1998, 1999, and 2000. PGE pays Enron the estimated value of the shares vesting each year. The fair value of shares vesting in both 2000 and 1999 was $4 million. The value is calculated using the Black-Scholes option-pricing model.

Note 3 - Income Taxes

The following table shows the detail of taxes on income and the items used in computing the differences between the statutory federal income tax rate and PGE's effective tax rate (millions of dollars):

	2000	1999	1998
Income Tax Expense			
Currently payable			
Federal	$ 88	$ 78	$ 75
State and local	17	15	13
	105	93	88
Deferred income taxes			
Federal	(2)	(1)	(1)
State and local	-	2	(1)
	(2)	1	(2)
Investment tax credit adjustments	(6)	(4)	(4)
	$ 97	$ 90	$ 82
Provision Allocated to:			
Operations	$ 94	$ 84	$ 81
Other income and deductions	3	6	1
	$ 97	$ 90	$ 82
Effective Tax Rate Computation:			
Computed tax based on statutory federal income tax rates applied to income before income taxes	$ 84	$ 77	$ 77
Flow through depreciation	6	7	4
State and local taxes - net	11	11	7
Investment tax credits	(6)	(4)	(4)
Excess deferred taxes	(1)	(1)	(1)
Other	3	-	(1)
	$ 97	$ 90	$ 82
Effective tax rate	40.8%	41.3%	37.4%

Note 3 - Income Taxes

The following table shows the detail of taxes on income and the items used in computing the differences between the statutory federal income tax rate and PGE's effective tax rate (in millions):

	2002	2001	2000
Income Tax Expense			
Currently payable:			
Federal	$ 5	$ 32	$ 88
State and local	-	3	17
	5	35	105
Deferred income taxes:			
Federal	46	(25)	(2)
State and local	11	(5)	-
	57	(30)	(2)
Investment tax credit adjustments	(4)	(3)	(6)
Total income tax expense before cumulative effect of a change in accounting principle	$ 58	$ 2	$ 97
Provision Allocated to:			
Operations	$ 68	$ 38	$ 94
Other income and deductions	(10)	(36)	3
Total income tax expense before cumulative effect of a change in accounting principle	$ 58	$ 2	$ 97
Effective Tax Rate Computation:			
Computed tax based on statutory federal income tax rate (35%) applied to income before income taxes	$ 44	$ 9	$ 84
Flow through depreciation	8	5	6
State and local taxes - net of federal tax benefit	6	(1)	11
Investment tax credits	(4)	(3)	(6)
Excess deferred taxes	(1)	(1)	(1)
Deferred tax and other adjustments	5	(7)	3
Total income tax expense before cumulative effect of a change in accounting principle	$ 58	$ 2	$ 97
Effective tax rate	46.8%	9.1% (*)	40.8%

(*) The low effective tax rate for 2001 is primarily due to an approximate $5 million adjustment to deferred income taxes resulting from tax audit settlements, amended tax returns and the 2000 return to provision adjustment, $3 million in amortization of deferred investment tax credits, $2 million in state energy tax credits (net of the federal tax effect), and a $1 million tax effect related to non-taxable equity AFDC.

MOSS ADAMS LLP Response to PGE Comments

Included in this Exhibit is a letter from PGE, dated March 17, 2008, to the Office of the City Attorney in response to a draft of this report. Our comments are as follows.

Issue 1:

The filing of a federal consolidated tax return is a privilege. To be included, an affiliated member must sign a consent form, Form 1122, which expressly provides that the consenting subsidiary corporation agrees to be bound by the provisions of the consolidated return regulations. These regulations provide at Reg. Sec. 1.1502-6(a) provides that each member of the consolidated return will be severally liable for the consolidated tax of the entire group for any year they are included. -6(c) specifically that intercompany tax agreements are of no consequence regarding these provisions. In other words, whatever tax allocation agreement PGE had with Enron may have affected the way they reported financial information to, say the SEC, but it is no defense to tax claims the IRS may make on them for the years they were consolidated with Enron. Oregon incorporates these rules by reference to the same result.

PGE did agree to meet with Moss Adams for some limited discussions after we had time to consider their response to our draft report. Informally they told us they do not have copies of these filings from the year 2000 to share with us even if they would want to do so.

We corrected the citation to Exhibit B on draft page seven in this final report.

Issue 2:

PGE claims that they have not claimed NOL's from the Oregon Enron consolidated returns into the separate short-period year January 1, 2002, through December 23, 2002. Not in their response, but as part of the informal discussions mentioned above, we were told that there were significant adjustments between book income and taxable income for this 51 week short-period return. They identify the adjustments (in the range of $65 million to $70 million) to Power Cost Adjustments whereby they recognize revenues for book income sooner than they are recognized for taxable income. Based on this information Moss Adams has changed the Summary language referred to in the PGE response.

Exhibit D

JAMES B. GAFFNEY

PARTNER

Professional experience

Mr. Gaffney has been a taxpayer representative for privately owned businesses for over 20 years. He has experience in all aspects of planning, compliance, and advocacy for his client's tax matters. He was Managing Partner of the Portland Office 1996-2004.

Mr. Gaffney is a frequent speaker and writer on various tax topics. He is a past instructor in the Masters of Taxation program at Portland State University. He taught Partnership Taxation and Accounting Methods and Periods. He is the primary architect of Oregon's current income tax laws, which were enacted in 1985. He is past president of the Oregon Society of CPA's, and he is a current member of the Oregon Board of Accountancy.

Professional organizations

American Institute of Certified Public Accountants
Oregon Society of Certified Public Accountants (President 1988 – 89)
California Bar Association (Inactive)

Civic and other organizations

Oregon Board of Accountancy (2001 – Present)
Karen Gaffney Foundation (1997 – Present)
Archdiocese of Portland – Audit Committee (1996 – 2003)

Education

B.S. – University of Santa Clara (1971)
J.D. – University of Santa Clara (1975)
Instructor – Portland State University (1992 – 1997)
Masters of Taxation Program

ROB O'NEILL, CPA

STATE AND LOCAL TAX SENIOR MANAGER

Rob is a Senior Manager based in the Portland, Oregon office of Moss Adams. Rob is also the Oregon Area Practice Leader for State and Local Tax services. Rob has ten years of experience providing state and local tax advisory and compliance services to large multi-state and multinational companies in various industries. He regularly advises clients on state income/franchise tax, sales/use tax and incentives issues related to corporate expansions, acquisitions, dispositions, reorganizations and entity simplification projects. He also manages and consults on large income/franchise tax and sales/use tax compliance engagements. Throughout Rob's career he has managed several large multi-state reverse sales/use tax audits and income/franchise tax refund engagements recovering millions in overpaid taxes. Rob has also managed and delivered voluntary disclosure services and/or audit defense services in most every state. Rob is a frequent speaker at regional tax conferences and regularly contributes articles to regional and industry-specific trade journals. Rob has extensive experience in consulting on Oregon tax incentives including the Oregon Enterprise Zone incentives and Oregon BETC.