

PORTLAND GENERAL ELECTRIC CO /OR/
Form 10-Q
May 03, 2012
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2012

or

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

For the transition period from _____ to _____

Commission File Number: 1-5532-99

PORTLAND GENERAL ELECTRIC COMPANY
(Exact name of registrant as specified in its charter)

Oregon
(State or other jurisdiction of
incorporation or organization)

121 SW Salmon Street
Portland, Oregon 97204
(503) 464-8000

(Address of principal executive offices, including zip code,
and Registrant's telephone number, including area code)

93-0256820
(I.R.S. Employer
Identification No.)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

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Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes No

Number of shares of common stock outstanding as of April 26, 2012 is 75,506,040 shares.

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PORTLAND GENERAL ELECTRIC COMPANY
FORM 10-Q
FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2012

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DEFINITIONS

The following abbreviations and acronyms are used throughout this document:

Abbreviation or Acronym	Definition
AFDC	Allowance for funds used during construction
AUT	Annual Power Cost Update Tariff
Biglow Canyon	Biglow Canyon Wind Farm
Boardman	Boardman coal-fired generating plant
Cascade Crossing	Cascade Crossing Transmission Project
CERS	California Energy Resources Scheduling
Colstrip	Colstrip Units 3 and 4 coal-fired generating plant
EPA	U.S. Environmental Protection Agency
FERC	Federal Energy Regulatory Commission
IRP	Integrated Resource Plan
ISFSI	Independent Spent Fuel Storage Installation
kV	Kilovolt = one thousand volts of electricity
LLC	Limited Liability Company
Moody's	Moody's Investors Service
MW	Megawatts
MWa	Average megawatts
MWh	Megawatt hours
NVPC	Net Variable Power Costs
OPUC	Public Utility Commission of Oregon
PCAM	Power Cost Adjustment Mechanism
S&P	Standard & Poor's Ratings Services
SEC	Securities and Exchange Commission
Trojan	Trojan Nuclear Plant
URP	Utility Reform Project
VIE	Variable Interest Entity

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PART I — FINANCIAL INFORMATION

Item 1. Financial Statements.

PORTLAND GENERAL ELECTRIC COMPANY AND SUBSIDIARIES
 CONDENSED CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
 (Dollars in millions, except per share amounts)
 (Unaudited)

	Three Months Ended March 31,	
	2012	2011
Revenues, net	\$479	\$484
Operating expenses:		
Purchased power and fuel	195	194
Production and distribution	53	42
Administrative and other	54	52
Depreciation and amortization	62	56
Taxes other than income taxes	27	25
Total operating expenses	391	369
Income from operations	88	115
Other income:		
Allowance for equity funds used during construction	1	1
Miscellaneous income, net	3	2
Other income, net	4	3
Interest expense	28	27
Income before income taxes	64	91
Income taxes	15	22
Net income and net income attributable to Portland General Electric Company	\$49	\$69
Comprehensive income and comprehensive income attributable to Portland General Electric Company	\$49	\$69
Weighted-average shares outstanding (in thousands):		
Basic	75,423	75,318
Diluted	75,443	75,337
Earnings per share - basic and diluted	\$0.65	\$0.92
Dividends declared per common share	\$0.265	\$0.260

See accompanying notes to condensed consolidated financial statements.

Table of ContentsPORTLAND GENERAL ELECTRIC COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

(In millions)

(Unaudited)

	March 31, 2012	December 31, 2011
ASSETS		
Current assets:		
Cash and cash equivalents	\$8	\$6
Accounts receivable, net	156	144
Unbilled revenues	79	101
Inventories	81	71
Margin deposits	98	80
Regulatory assets - current	232	216
Deferred income tax assets	39	33
Other current assets	87	65
Total current assets	780	716
Electric utility plant, net	4,288	4,285
Regulatory assets - noncurrent	588	594
Nuclear decommissioning trust	36	37
Non-qualified benefit plan trust	36	36
Other noncurrent assets	61	65
Total assets	\$5,789	\$5,733

See accompanying notes to condensed consolidated financial statements.

Table of ContentsPORTLAND GENERAL ELECTRIC COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS, continued

(Dollars in millions)

(Unaudited)

	March 31, 2012	December 31, 2011
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	\$80	\$111
Liabilities from price risk management activities - current	242	216
Short-term debt	—	30
Current portion of long-term debt	100	100
Accrued expenses and other current liabilities	166	157
Total current liabilities	588	614
Long-term debt, net of current portion	1,635	1,635
Regulatory liabilities - noncurrent	742	720
Deferred income taxes	557	529
Liabilities from price risk management activities - noncurrent	173	172
Unfunded status of pension and postretirement plans	197	195
Non-qualified benefit plan liabilities	102	101
Other noncurrent liabilities	100	101
Total liabilities	4,094	4,067
Commitments and contingencies (see notes)		
Equity:		
Portland General Electric Company shareholders' equity:		
Preferred stock, no par value, 30,000,000 shares authorized; none issued and outstanding as of March 31, 2012 and December 31, 2011	—	—
Common stock, no par value, 160,000,000 shares authorized; 75,504,580 and 75,362,956 shares issued and outstanding as of March 31, 2012 and December 31, 2011, respectively	836	836
Accumulated other comprehensive loss	(6	) (6
Retained earnings	862	833
Total Portland General Electric Company shareholders' equity	1,692	1,663
Noncontrolling interests' equity	3	3
Total equity	1,695	1,666
Total liabilities and equity	\$5,789	\$5,733

See accompanying notes to condensed consolidated financial statements.

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CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In millions)

(Unaudited)

	Three Months Ended March 31,	
	2012	2011
Cash flows from operating activities:		
Net income	\$49	\$69
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	62	56
Increase (decrease) in net liabilities from price risk management activities	21	(29)
Regulatory deferral - price risk management activities	(22)	) 29
Deferred income taxes	24	25
Power cost deferrals, net of amortization	3	4
Allowance for equity funds used during construction	(1)	) (1)
Other non-cash income and expenses, net	14	9
Changes in working capital:		
Decrease (increase) in receivables	9	(1)
(Increase) decrease in margin deposits, net	(18)	) 3
Income tax refund received	8	8
Decrease in payables and accrued liabilities	(18)	) (10)
Other working capital items, net	(24)	) (16)
Other, net	3	—
Net cash provided by operating activities	110	146
Cash flows from investing activities:		
Capital expenditures	(69)	) (69)
Sale of solar power facility	10	—
Sales of Nuclear decommissioning trust securities	7	18
Purchases of Nuclear decommissioning trust securities	(7)	) (19)
Other, net	1	—
Net cash used in investing activities	(58)	) (70)

See accompanying notes to condensed consolidated financial statements.

Table of ContentsPORTLAND GENERAL ELECTRIC COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS, continued

(In millions)

(Unaudited)

	Three Months Ended March 31,	
	2012	2011
Cash flows from financing activities:		
Payments on long-term debt	\$—	\$(10)
Maturities of commercial paper, net	(30)	(19)
Dividends paid	(20)	(20)
Noncontrolling interests' capital distributions	—	(4)
Net cash used in financing activities	(50)	(53)
Increase in cash and cash equivalents	2	23
Cash and cash equivalents, beginning of period	6	4
Cash and cash equivalents, end of period	\$8	\$27
Supplemental cash flow information is as follows:		
Cash paid for interest, net of amounts capitalized	\$13	\$15
Cash paid for income taxes	—	1
Non-cash investing and financing activities:		
Accrued capital additions	8	9
Accrued dividends payable	21	20

See accompanying notes to condensed consolidated financial statements.

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PORTLAND GENERAL ELECTRIC COMPANY
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 1: BASIS OF PRESENTATION

Nature of Business

Portland General Electric Company (PGE or the Company) is a single, vertically integrated electric utility engaged in the generation, transmission, distribution, and retail sale of electricity. The Company also participates in the wholesale market by purchasing and selling electricity and natural gas in order to obtain reasonably-priced power for its retail customers. PGE operates as a single segment, with revenues and costs related to its business activities maintained and analyzed on a total electric operations basis. PGE's corporate headquarters are located in Portland, Oregon and its service area is located entirely within the state of Oregon. PGE's service area includes 52 incorporated cities, of which Portland and Salem are the largest, within a state-approved service area allocation of approximately 4,000 square miles. As of March 31, 2012, PGE served 824,780 retail customers with a service area population of approximately 1.7 million, comprising approximately 44% of the state's population.

Condensed Consolidated Financial Statements

These condensed consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). Certain information and footnote disclosures normally included in financial statements prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) have been condensed or omitted pursuant to such regulations, although PGE believes that the disclosures provided are adequate to make the interim information presented not misleading.

The financial information included herein for the three months ended March 31, 2012 and 2011 is unaudited; however, such information reflects all adjustments, consisting of normal recurring adjustments, that are, in the opinion of management, necessary for a fair presentation of the condensed consolidated financial position, condensed consolidated results of operations, and condensed consolidated cash flows of the Company for these interim periods. Certain costs are estimated for the full year and allocated to interim periods based on estimates of operating time expired, benefit received, or activity associated with the interim period; accordingly, such costs may not be reflective of amounts to be recognized for a full year. Due to seasonal fluctuations in electricity sales, as well as the price of wholesale energy and natural gas, interim financial results do not necessarily represent those to be expected for the year. The financial information as of December 31, 2011 is derived from the Company's audited consolidated financial statements and notes thereto for the year ended December 31, 2011, included in Item 8 of PGE's Annual Report on Form 10-K, filed with the SEC on February 24, 2012, and should be read in conjunction with such consolidated financial statements.

Use of Estimates

The preparation of condensed consolidated financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosures of gain or loss contingencies, as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results experienced by the Company could differ materially from those estimates.

Reclassifications

To conform with the 2012 presentation, PGE has separately presented Deferred income tax assets from Other current assets, and reclassified Regulatory liabilities - current, of \$6 million, to Accrued expenses and other current liabilities, in the condensed consolidated balance sheet as of December 31, 2011. In addition, PGE has reclassified Senate Bill 408 deferrals, net of amortization to Other non-cash income and expenses, net in the condensed consolidated statement of cash flows for the three months ended March 31, 2011.

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PORTLAND GENERAL ELECTRIC COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS, continued

(Unaudited)

Recent Accounting Pronouncements

In May 2011, ASU 2011-04, Fair Value Measurements and Disclosures (Topic 820) - Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs (ASU 2011-04) was issued. Many of the amendments in ASU 2011-04 change the wording used to describe principles and requirements to align with International Financial Reporting Standards as issued by the International Accounting Standards Board, and are not intended to change the application of Topic 820. Some of the amendments clarify the Financial Accounting Standards Board's intent on the application of existing fair value guidance or change a particular principle or requirement for measuring fair value or fair value disclosures. PGE adopted the amendments contained in ASU 2011-04 on January 1, 2012, which did not have an impact on the Company's consolidated financial position, consolidated results of operations, or consolidated cash flows.

In June 2011, ASU 2011-05, Comprehensive Income (Topic 220) - Presentation of Comprehensive Income (ASU 2011-05) was issued. The amendments of ASU 2011-05 require that an entity report items of other comprehensive income in one of two ways: (i) a single statement with components of net income and total net income, the components of other comprehensive income and total other comprehensive income, and a total for comprehensive income; or (ii) two statements with components of net income and total net income in the first statement, immediately followed by a statement that presents the components of other comprehensive income, a total for other comprehensive income, and a total for comprehensive income. PGE adopted the amendments contained in ASU 2011-05 on December 31, 2011, which had no impact on the Company's consolidated financial position, consolidated results of operations, or consolidated cash flows.

In December 2011, ASU 2011-12, Comprehensive Income (Topic 220) - Presentation of Comprehensive Income (ASU 2011-12) was issued and defers only the changes in ASU 2011-05 that relate to the presentation of reclassification adjustments, which pertain to how and where reclassification adjustments are presented. ASU 2011-12 is effective at the same time as ASU 2011-05. Accordingly, PGE adopted the amendments contained in ASU 2011-12 on December 31, 2011, which had no impact on the Company's consolidated financial position, consolidated results of operations, or consolidated cash flows.

NOTE 2: BALANCE SHEET COMPONENTS

Accounts Receivable, Net

Accounts receivable is net of an allowance for uncollectible accounts of \$6 million as of March 31, 2012 and December 31, 2011.

The activity in the allowance for uncollectible accounts is as follows (in millions):

	Three Months Ended	
	March 31,	
	2012	2011
Balance as of beginning of period	\$6	\$5
Provision, net	1	2
Amounts written off, less recoveries	(1) (2
Balance as of end of period	\$6	\$5

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PORTLAND GENERAL ELECTRIC COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS, continued

(Unaudited)

Inventories

PGE inventories, which are recorded at average cost, consist primarily of materials and supplies for use in operations, maintenance and capital activities and fuel for use in generating plants. Fuel inventories include natural gas, coal, and oil. Periodically, the Company assesses the realizability of inventory for purposes of determining that inventory is recorded at the lower of average cost or market.

Electric Utility Plant, Net

Electric utility plant, net consists of the following (in millions):

	March 31, 2012	December 31, 2011
Electric utility plant	\$6,630	\$6,596
Construction work in progress	129	120
Total cost	6,759	6,716
Less: accumulated depreciation and amortization	(2,471	) (2,431
Electric utility plant, net	\$4,288	\$4,285

Accumulated depreciation and amortization in the table above includes accumulated amortization related to intangible assets of \$158 million and \$153 million as of March 31, 2012 and December 31, 2011, respectively. Amortization expense related to intangible assets was \$5 million for the three months ended March 31, 2012 and 2011.

In January 2012, PGE completed construction of a \$10 million, 1.75 MW solar powered electric generating facility, which was sold to, and simultaneously leased-back from, a financial institution. The Company operates the project and receives 100% of the power generated by the facility.

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PORTLAND GENERAL ELECTRIC COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS, continued

(Unaudited)

Regulatory Assets and Liabilities

Regulatory assets and liabilities consist of the following (in millions):

	March 31, 2012		December 31, 2011	
	Current	Noncurrent	Current	Noncurrent
Regulatory assets:				
Price risk management	\$216	\$172	\$194	\$172
Pension and other postretirement plans	—	290	—	295
Deferred income taxes	—	85	—	87
Deferred broker settlements	9	—	11	—
Debt reacquisition costs	—	27	—	28
Other	7	14	11	12
Total regulatory assets	\$232	\$588	\$216	\$594
Regulatory liabilities:				
Asset retirement removal costs	\$—	\$651	\$—	\$637
Asset retirement obligations	—	37	—	36
Power cost adjustment mechanism	—	14	—	10
Other	3	40	6	37
Total regulatory liabilities	\$3	\$742	\$6	\$720

Accrued expenses and other current liabilities

Accrued expenses and other current liabilities consist of the following (in millions):

	March 31, 2012	December 31, 2011
Accrued employee compensation and benefits	\$38	\$44
Accrued interest payable	35	24
Accrued dividends payable	21	21
Other	72	68
Total accrued expenses and other current liabilities	\$166	\$157

Other Noncurrent Liabilities

During 2011, an updated decommissioning study for the Company's Boardman coal-fired plant was completed, which assumed that Boardman's coal-fired operations cease in 2020 rather than 2040. As a result of the study, PGE increased its asset retirement obligation related to Boardman by approximately \$23 million in the first quarter of 2011, and subsequently adjusted the increase down to \$20 million in the fourth quarter of 2011, with a corresponding increase in the cost basis of the plant, included in Electric utility plant, net on the condensed consolidated balance sheet. Such transaction is non-cash and is excluded from investing activities in the statement of cash flows for the three months ended March 31, 2011.

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PORTLAND GENERAL ELECTRIC COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS, continued

(Unaudited)

Credit Facilities

PGE has the following unsecured revolving credit facilities:

• A \$370 million syndicated credit facility, with \$10 million and \$360 million scheduled to terminate in July 2012 and July 2013, respectively; and

• A \$300 million syndicated credit facility, which is scheduled to terminate in December 2016.

Pursuant to the individual terms of the agreements, both credit facilities may be used for general corporate purposes and as backup for commercial paper borrowings, and also permit the issuance of standby letters of credit. PGE may borrow for one, two, three, or six months at a fixed interest rate established at the time of the borrowing, or at a variable interest rate for any period up to the then remaining term of the applicable credit facility. Both credit facilities require annual fees based on PGE's unsecured credit ratings, and contain customary covenants and default provisions, including a requirement that limits consolidated indebtedness, as defined in the agreements, to 65% of total capitalization. As of March 31, 2012, PGE was in compliance with this requirement with a 50.6% debt to total capital ratio.

The Company has a commercial paper program under which it may issue commercial paper for terms of up to 270 days, limited to the unused amount of credit under the credit facilities.

Pursuant to an order issued by the Federal Energy Regulatory Commission (FERC), the Company is authorized to issue short-term debt up to \$700 million through February 6, 2014. The authorization provides that if utility assets financed by unsecured debt are divested, then a proportionate share of the unsecured debt must also be divested.

PGE classifies borrowings and outstanding commercial paper under the revolving credit facility as Short-term debt on the condensed consolidated balance sheet. As of March 31, 2012, PGE had no borrowings or commercial paper outstanding under the credit facility, and \$137 million of letters of credit issued. As of December 31, 2011, PGE had no borrowings and \$30 million of commercial paper outstanding, and \$124 million in letters of credit issued. As of March 31, 2012, the aggregate unused credit available under the credit facilities was \$533 million.

Pension and Other Postretirement Benefits

Components of net periodic benefit cost are as follows for the three months ended March 31 (in millions):

	Defined Benefit Pension Plan		Other Postretirement Benefits		Non-Qualified Benefit Plans	
	2012	2011	2012	2011	2012	2011
Service cost	\$3	\$3	\$1	\$1	\$—	\$—
Interest cost	8	7	1	1	1	1
Expected return on plan assets	(10	) (10)	—	—	—
Amortization of net actuarial loss	4	2	—	—	—	—
Net periodic benefit cost	\$5	\$2	\$2	\$2	\$1	\$1

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PORTLAND GENERAL ELECTRIC COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS, continued

(Unaudited)

NOTE 3: FAIR VALUE OF FINANCIAL INSTRUMENTS

PGE determines the fair value of financial instruments, both assets and liabilities recognized and not recognized in the Company's condensed consolidated balance sheets, for which it is practicable to estimate fair value as of March 31, 2012 and December 31, 2011, and then classifies these financial assets and liabilities based on a fair value hierarchy. The fair value hierarchy is used to prioritize the inputs to the valuation techniques used to measure fair value. These three broad levels and application to the Company are discussed below:

Level 1 — Quoted prices are available in active markets for identical assets or liabilities as of the reporting date.

Level 2 — Pricing inputs include those that are directly or indirectly observable in the marketplace as of the reporting date.

Level 3 — Pricing inputs include significant inputs which are unobservable for the asset or liability.

Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The Company's assessment of the significance of a particular input to the fair value measurement requires judgment, and may affect the valuation of fair value assets and liabilities and their placement within the fair value hierarchy.

PGE recognizes any transfers between levels in the fair value hierarchy as of the end of the reporting period. Changes to market liquidity conditions, the availability of observable inputs, or changes in the economic structure of a security marketplace may require transfer of the securities between levels. There were no significant transfers between levels, except those transfers out of Level 3 to Level 2 presented in this note, as of March 31, 2012 and December 31, 2011.

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PORTLAND GENERAL ELECTRIC COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS, continued

(Unaudited)

The Company's financial assets and liabilities whose values were recognized at fair value are as follows by level within the fair value hierarchy (in millions):

	As of March 31, 2012			Total
	Level 1	Level 2	Level 3	
Assets:				
Nuclear decommissioning trust: ⁽¹⁾				
Money market funds	\$—	\$14	\$—	\$14
Debt securities:				
Domestic government	4	9	—	13
Corporate credit	—	9	—	9
Non-qualified benefit plan trust: ⁽²⁾				
Equity securities:				
Domestic	—	—	—	—
International	7	3	—	10
Debt securities - domestic government	2	—	—	2
Assets from price risk management activities: ^{(1) (3)}				
Electricity	—	6	1	7
Natural gas	—	18	—	18
	\$13	\$59	\$1	\$73
Liabilities from price risk management activities: ^{(1) (3)}				
Electricity	\$—	\$130	\$36	\$166
Natural gas	—	189	60	249
	\$—	\$319	\$96	\$415

(1) Activities are subject to regulation, with certain gains and losses deferred pursuant to regulatory accounting and included in Regulatory assets or Regulatory liabilities as appropriate.

(2) Excludes insurance policies of \$24 million, which are recorded at cash surrender value.

(3) For further information, see Note 4, Price Risk Management.

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PORTLAND GENERAL ELECTRIC COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS, continued

(Unaudited)

	As of December 31, 2011			Total
	Level 1	Level 2	Level 3	
Assets:				
Nuclear decommissioning trust: ⁽¹⁾				
Money market funds	\$—	\$14	\$—	\$14
Debt securities:				
Domestic	3	9	—	12
Corporate credit	—	11	—	11
Non-qualified benefit plan trust: ⁽²⁾				
Equity securities:				
Domestic	7	2	—	9
International	1	—	—	1
Debt securities - domestic government	3	—	—	3
Assets from price risk management activities: ^{(1) (3)}				
Electricity	—	2	—	2
Natural gas	—	17	—	17
	\$14	\$55	\$—	\$69
Liabilities from price risk management activities: ^{(1) (3)}				
Electricity	\$—	\$108	\$29	\$137
Natural gas	—	201	50	251
	\$—	\$309	\$79	\$388

(1) Activities are subject to regulation, with certain gains and losses deferred pursuant to regulatory accounting and included in Regulatory assets or Regulatory liabilities as appropriate.

(2) Excludes insurance policies of \$23 million, which are recorded at cash surrender value.

(3) For further information, see Note 4, Price Risk Management.

Trust assets held in the Nuclear decommissioning and Non-qualified benefit plan trusts are recorded at fair value in PGE's consolidated balance sheets and allocated to securities that are exposed to interest rate, credit and market volatility risks. These assets are classified within the fair value hierarchy based on the following factors:

Money market funds — PGE invests in money market funds that seek to maintain a stable net asset value. These funds invest in high-quality, short-term, diversified money market instruments, short-term treasury bills, federal agency securities, certificates of deposits, and commercial paper. Money market funds held in the Nuclear decommissioning trust are classified as Level 2 in the fair value hierarchy as the securities are traded in active markets of similar securities but are not directly valued using quoted market prices.

Debt securities — PGE invests in highly-liquid United States treasury securities to support the investment objectives of the trusts. These securities are classified as Level 1 in the fair value hierarchy due to the availability of quoted prices for identical assets in an active market as of the reporting date.

Fair values for municipal debt and corporate credit securities are classified as Level 2 as prices are determined by evaluating pricing data such as broker quotes for similar securities and adjusted for observable differences. Significant inputs used in valuation models generally include benchmark yield and issuer spreads. The external credit rating,

coupon rate, and maturity of each security are considered in the valuation as applicable.

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PORTLAND GENERAL ELECTRIC COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS, continued

(Unaudited)

Equity securities — Equity mutual fund and common stock securities are primarily classified as Level 1 in the fair value hierarchy due to the availability of quoted prices for identical assets in an active market as of the reporting date. Principal markets for equity prices include published exchanges such as NASDAQ and the New York Stock Exchange (NYSE). Certain mutual fund assets included in commingled trusts or separately managed accounts are classified as Level 2 in the fair value hierarchy as pricing inputs are directly or indirectly observable in the marketplace as of the reporting date.

Assets and liabilities from price risk management activities are recorded at fair value in PGE's consolidated balance sheets and consist of derivative instruments entered into by the Company to manage its exposure to commodity price risk and foreign exchange rate risk, in order to reduce volatility in net power costs for the Company's retail customers. For additional information regarding these assets and liabilities, see Note 4, Price Risk Management.

For those assets and liabilities from price risk management activities classified as Level 2, fair value is derived using present value formulas that utilize inputs such as quoted forward prices for commodities and interest rates.

Substantially all of these assumptions are observable in the marketplace throughout the full term of the instrument, can be derived from observable data, or are supported by observable levels at which transactions are executed in the marketplace. Instruments in this category include over-the-counter forwards and swaps.

Assets and liabilities from price risk management activities classified as Level 3 consist of instruments for which fair value is derived using one or more significant inputs that are not observable for the entire term of the instrument. These instruments consist of longer term over-the-counter swap derivatives. Commodity option contracts whose fair value is derived using standardized valuation techniques, such as Black-Scholes, are also classified as Level 3 and represent an immaterial portion of the Company's Level 3 fair value measurements. Inputs into the valuation of commodity option contracts include forward commodity prices, forward interest rates, and historic volatility and correlation factors.

Quantitative information regarding the significant, unobservable inputs used in the measurement of Level 3 liabilities from price risk management activities as of March 31, 2012 is presented below:

	Fair Value (in millions) ⁽¹⁾	Range and Weighted Average Price per Unit		Weighted Average	Unit
		Low	High		
Liabilities from price risk management activities: ⁽²⁾					
Electricity financial swaps	\$36	\$5.99	\$49.70	\$38.33	MWh
Natural gas financial swaps	\$60	\$2.85	\$4.83	\$3.71	Dth

(1) Assets from price risk management activities related to commodity option contracts and electricity financial swaps are considered immaterial for this disclosure.

(2) The company values its Level 3 liabilities from price risk management activities using a discounted cash flow technique in which long-term quoted forward prices are unobservable inputs.

The significant unobservable inputs used in the Company's fair value measurement of price risk management assets and liabilities are long-term forward prices for commodity derivatives. These inputs employ the mid-point of the

market's bid-ask spread and are derived using observed transactions in active markets, as well as historical experience as a participant in those markets. These inputs are validated against nonbinding quotes from brokers

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS, continued

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with whom the Company transacts. In addition, changes in the fair value measurement from price risk management assets and liabilities are analyzed and reviewed on a monthly basis by the Company's Risk Management group. This process includes analytical review of changes in commodity prices as well as procedures to analyze and identify the reasons for the changes over specific reporting periods.

The Company's assets and liabilities from price risk management activities are sensitive to changes in the underlying market prices of the related commodities. The significance of the impact is dependent upon the magnitude of the price change and the Company's position as either the buyer or seller of the contract. As the buyer of a commodity financial swap, an increase in the underlying commodity price would result in a favorable change to the Company's fair value measurement. Conversely, a decrease in the underlying commodity price to buy a commodity financial swap would result in an unfavorable change to the Company's fair value measurement. As the seller of a commodity financial swap, the Company's fair value measurements are sensitive to price changes in a manner opposite to the buy side relationship discussed above.

Changes in the fair value of net liabilities from price risk management activities (net of assets from price risk management activities) classified as Level 3 in the fair value hierarchy were as follows (in millions):

	Three Months Ended March 31,	
	2012	2011
Balance as of the beginning of the period	\$79	\$120
Net realized/unrealized losses (gains) for the period ⁽¹⁾	18	(2)
Purchases	—	(1)
Issues	(1)	—
Settlements	—	(1)
Transfers out of Level 3 to Level 2	(1)	—
Balance as of the end of the period	\$95	\$116

Contains nominal amounts of realized losses, net. Both realized and unrealized gains (losses) are recorded in (1) Purchased power and fuel expense in the condensed consolidated statements of income of which the unrealized portion is fully offset by the effects of regulatory accounting until settlement of the underlying transactions.

Transfers into Level 3 occur when significant inputs used to value the Company's derivative instruments become less observable, such as a delivery location becoming significantly less liquid. During the three months ended March 31, 2012, there were no transfers into Level 3 from Level 2. Transfers out of Level 3 occur when the significant inputs become more observable, such as when the time between the valuation date and the delivery term of a transaction becomes shorter. PGE records transfers in and transfers out of Level 3 at the end of the reporting period for all of its financial instruments. Transfers from Level 2 to Level 1 for the Company's price risk management assets and liabilities do not occur as quoted prices are not available for identical instruments. As such, the Company's assets and liabilities from price risk management activities mature and settle as Level 2 fair value measurements. Additionally, the Company has no price risk management assets or liabilities classified as Level 1 fair value measurements.

Long-term debt is recorded at amortized cost in PGE's consolidated balance sheets. The fair value of long-term debt is classified as a Level 2 fair value measurement and is estimated based on the quoted market prices for the same or

similar issues or on the current rates offered to PGE for debt of similar remaining maturities. As of March 31, 2012, the estimated aggregate fair value of PGE's long-term debt was \$2,193 million, compared to its \$1,735

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million carrying amount. As of December 31, 2011, the estimated aggregate fair value of PGE's long-term debt was \$2,091 million, compared to its \$1,735 million carrying amount.

NOTE 4: PRICE RISK MANAGEMENT

PGE participates in the wholesale marketplace in order to balance its supply of power, which consists of its own generating resources combined with wholesale market transactions, to meet the needs of its retail customers, manage risk, and administer its existing long-term wholesale contracts. Such activities include fuel and power purchases and sales resulting from economic dispatch decisions for Company-owned generation. As a result of this ongoing business activity, PGE is exposed to commodity price risk and foreign currency exchange rate risk, from which changes in prices and/or rates may affect the Company's financial position, results of operations, or cash flows.

PGE utilizes derivative instruments in its wholesale electric utility activities to manage its exposure to commodity price risk and foreign currency exchange rate risk in order to reduce volatility in net power costs for its retail customers. These derivative instruments may include forward, swap, and option contracts for electricity, natural gas, oil, and foreign currency, which are recorded at fair value on the balance sheet, with changes in fair value recorded in the condensed consolidated statements of income and comprehensive income. In accordance with the ratemaking and cost recovery process authorized by the OPUC, PGE recognizes a regulatory asset or liability to defer the gains and losses from derivative activity until realized. This accounting treatment defers the fair value gains and losses on derivative activities until settlement of the associated derivative instrument. PGE may designate certain derivative instruments as cash flow hedges or may use derivative instruments as purely economic hedges. The Company does not engage in trading activities for non-retail purposes.

PGE has elected to report gross on the balance sheet the positive and negative exposures resulting from derivative instruments. As of March 31, 2012 and December 31, 2011, the Company had \$32 million and \$26 million, respectively, in collateral posted with counterparties under an agreement that meets the definition of a master netting arrangement. This collateral consists entirely of letters of credit.

PGE's net volumes related to its Assets and Liabilities from price risk management activities resulting from its derivative transactions, which are expected to deliver or settle through 2016, were as follows (in millions):

	March 31, 2012		December 31, 2011	
Commodity contracts:				
Electricity	12	MWh	13	MWh
Natural gas	71	Decatherms	79	Decatherms
Foreign currency	\$7	Canadian	\$6	Canadian

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS, continued

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The fair value of PGE's Assets and Liabilities from price risk management activities consists of the following (in millions):

	March 31, 2012		December 31, 2011	
Current assets:				
Commodity contracts:				
Electricity	\$7		\$2	
Natural gas	18		17	
Total current derivative assets	25	(1)	19	(1)
Total derivative assets not designated as hedging instruments	\$25		\$19	
Total derivative assets	\$25		\$19	
Current liabilities:				
Commodity contracts:				
Electricity	\$90		\$66	
Natural gas	152		150	
Total current derivative liabilities	242		216	
Noncurrent liabilities:				
Commodity contracts:				
Electricity	76		71	
Natural gas	97		101	
Total noncurrent derivative liabilities	173		172	
Total derivative liabilities not designated as hedging instruments	\$415		\$388	
Total derivative liabilities	\$415		\$388	

(1) Included in Other current assets on the condensed consolidated balance sheets.

Net realized and unrealized losses (gains) on derivative transactions not designated as hedging instruments are classified in Purchased power and fuel in the condensed consolidated statements of income and were as follows (in millions):

	Three Months Ended March 31,	
	2012	2011
Commodity contracts:		
Electricity	\$53	\$31
Natural Gas	36	(6)

Net unrealized losses and certain net realized losses presented in the table above are offset within the consolidated statements of income by the effects of regulatory accounting. Of the net loss recognized in Net income for the three months ended March 31, 2012 and 2011, net losses of \$81 million and \$25 million, respectively, have been offset.

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Assuming no changes in market prices and interest rates, the following table indicates the year in which the net unrealized loss recorded as of March 31, 2012 related to PGE's derivative activities would become realized as a result of the settlement of the underlying derivative instrument (in millions):

	2012	2013	2014	2015	Total
Commodity contracts:					
Electricity	\$63	\$60	\$25	\$11	\$159
Natural gas	111	83	30	7	231
Net unrealized loss	\$174	\$143	\$55	\$18	\$390

The Company's secured and unsecured debt is currently rated at investment grade by Moody's Investors Service (Moody's) and Standard and Poor's Ratings Services (S&P). Should Moody's and/or S&P reduce their rating on the Company's unsecured debt to below investment grade, PGE could be subject to requests by certain wholesale counterparties to post additional performance assurance collateral, in the form of cash or letters of credit, based on total portfolio positions with each of those counterparties. Certain other counterparties would have the right to terminate their agreements with the Company.

The aggregate fair value of all derivative instruments with credit-risk-related contingent features that were in a liability position as of March 31, 2012 was \$333 million, for which the Company has posted \$116 million in collateral, consisting entirely of letters of credit. If the credit-risk-related contingent features underlying these agreements were triggered at March 31, 2012, the cash requirement to either post as collateral or settle the instruments immediately would have been \$309 million.

Counterparties representing 10% or more of Assets and Liabilities from price risk management activities as of March 31, 2012 or December 31, 2011 were as follows:

	March 31, 2012		December 31, 2011	
Assets from price risk management activities:				
Counterparty A	16	%	16	%
Counterparty B	12		19	
Counterparty C	11		7	
Counterparty D	8		13	
	47	%	55	%
Liabilities from price risk management activities:				
Counterparty C	22	%	23	%
Counterparty E	13		10	
	35	%	33	%

See Note 3 for additional information concerning the determination of fair value for the Company's Assets and Liabilities from price risk management activities.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS, continued

(Unaudited)

NOTE 5: EARNINGS PER SHARE

Components of basic and diluted earnings per share were as follows:

	Three Months Ended March 31,	
	2012	2011
Numerator (in millions):		
Net income attributable to Portland General Electric Company common shareholders	\$49	\$69
Denominator (in thousands):		
Weighted-average common shares outstanding - basic	75,423	75,318
Dilutive effect of unvested restricted stock units and employee stock purchase plan shares	20	19
Weighted-average common shares outstanding - diluted	75,443	75,337
Earnings per share - basic and diluted	\$0.65	\$0.92

Unvested performance stock units and related dividend equivalent rights are not included in the computation of dilutive securities because vesting of these instruments is dependent upon three-year performance periods and the vesting criteria has not been met as of the end of the reporting period presented.

Basic and diluted earnings per share amounts are calculated based on actual amounts rather than the rounded amounts presented in the table above and on the condensed consolidated statements of income. Accordingly, calculations using the rounded amounts presented for net income and weighted average shares outstanding may yield results that vary from the earnings per share amounts presented in the table above.

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NOTE 6: EQUITY

The activity in equity during the three months ended March 31, 2012 and 2011 is as follows (dollars in millions):

	Portland General Electric Company Shareholders' Equity					Noncontrolling Interests' Equity
	Common Stock		Accumulated Other Comprehensive Loss	Retained Earnings		
	Shares	Amount				
Balances as of December 31, 2011	75,362,956	\$836	\$(6	)	\$833	\$3
Vesting of restricted and performance stock units	140,714	—	—		—	—
Issuance of shares pursuant to dividend reinvestment and direct stock purchase plan	910	—	—		—	—
Stock-based compensation	—	—	—		—	—
Dividends declared	—	—	—		(20)
Noncontrolling interests' capital distributions	—	—	—		—	—
Net income	—	—	—		49	—
Balances as of March 31, 2012	75,504,580	\$836	\$(6	)	\$862	\$3
Balances as of December 31, 2010	75,316,419	\$831	\$(5	)	\$766	\$7
Vesting of restricted stock units	9,184	—	—		—	—
Stock-based compensation	—	1	—		—	—
Dividends declared	—	—	—		(20)
Noncontrolling interests' capital distributions	—	—	—		—	(4
Net income	—	—	—		69	—
Balances as of March 31, 2011	75,325,603	\$832	\$(5)	\$815	\$3

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS, continued

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NOTE 7: CONTINGENCIES

PGE is subject to legal, regulatory, and environmental proceedings, investigations, and claims that arise from time to time in the ordinary course of its business. Contingencies are evaluated using the best information available at the time the consolidated financial statements are prepared. Legal costs incurred in connection with loss contingencies are expensed as incurred.

Loss contingencies are accrued and disclosed when it is probable that an asset has been impaired, or a liability incurred, as of the financial statement date and the amount of the loss can be reasonably estimated. If a reasonable estimate of probable loss cannot be determined, a range of loss may be established, in which case the minimum amount in the range is accrued, unless some other amount within the range appears to be a better estimate.

Loss contingencies are also disclosed when it is reasonably possible that an asset has been impaired, or a liability incurred. If a probable or reasonably possible loss can be reasonably estimated, then the Company discloses an estimate of such loss or the range of such loss. If a reasonable estimate cannot be made, disclosure will include the reason for such determination.

If an asset has been impaired or a liability incurred after the financial statement date, but prior to the issuance of the financial statements, the loss contingency is disclosed, if material, and the amount of any estimated loss is recorded in the appropriate reporting period.

The Company evaluates, on a quarterly basis, developments in such matters that could affect the amount of any accrual, as well as the likelihood of developments that would make a loss contingency both probable and reasonably estimable. The assessment as to whether a loss is probable or reasonably possible, and as to whether such loss or a range of such loss is estimable, often involves a series of complex judgments about future events. Management is often unable to estimate a reasonably possible loss, or a range of loss, particularly in cases in which (i) the damages sought are indeterminate or the basis for the damages claimed is not clear, (ii) the proceedings are in the early stages, (iii) discovery is not complete, (iv) the matters involve novel or unsettled legal theories, (v) there are significant facts in dispute, (vi) there are a large number of parties (including cases in which it is uncertain how liability, if any, would be shared among multiple defendants), or (vii) there is a wide range of potential outcomes. In such cases, there is considerable uncertainty regarding the timing or ultimate resolution, including any possible loss, fine, penalty, or business impact.

Trojan Investment Recovery

Regulatory Proceedings. In 1993, PGE closed the Trojan Nuclear Plant (Trojan) and sought full recovery of, and a rate of return on, its Trojan costs in a general rate case filing with the OPUC. The OPUC issued a general rate order that granted the Company recovery of, and a rate of return on, 87% of its remaining investment in Trojan.

Numerous challenges and appeals were subsequently filed in various state courts on the issue of the OPUC's authority under Oregon law to grant recovery of, and a return on, the Trojan investment. In 1998, the Oregon Court of Appeals upheld the OPUC's order authorizing PGE's recovery of the Trojan investment, but held that the OPUC did not have the authority to allow the Company to recover a return on the Trojan investment and remanded the case to the OPUC for reconsideration.

In 2000, PGE entered into agreements to settle the litigation related to recovery of, and return on, its investment in Trojan. The Utility Reform Project (URP) did not participate in the settlement and filed a complaint with the OPUC challenging the settlement agreements. In 2002, the OPUC issued an order (2002 Order) denying all of the URP's challenges. In 2007, following several appeals by various parties, the Oregon Court of Appeals issued an opinion that remanded the 2002 Order to the OPUC for reconsideration.

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The OPUC then issued an order in 2008 (2008 Order) that required PGE to provide refunds, including interest from September 30, 2000, to customers who received service from the Company during the period October 1, 2000 to September 30, 2001. PGE recorded a charge of \$33.1 million in 2008 related to the refund and accrued additional interest expense on the liability until refunds to customers were completed in the first quarter of 2010. The URP and the plaintiffs in the class actions described below separately appealed the 2008 Order to the Oregon Court of Appeals. Oral arguments in the appeal occurred in February 2012 and a decision by the Oregon Court of Appeals remains pending.

Class Actions. In two separate legal proceedings, lawsuits were filed in Marion County Circuit Court against PGE in 2003 on behalf of two classes of electric service customers. The class action lawsuits seek damages of \$260 million, plus interest, as a result of the Company's inclusion, in prices charged to customers, of a return on its investment in Trojan.

In 2006, the Oregon Supreme Court issued a ruling ordering the abatement of the class action proceedings until the OPUC responded to the 2002 Order (described above). The Oregon Supreme Court concluded that the OPUC has primary jurisdiction to determine what, if any, remedy it can offer to PGE customers, through price reductions or refunds, for any amount of return on the Trojan investment the Company collected in prices for the period from April 1, 1995 through October 1, 2000.

The Oregon Supreme Court further stated that if the OPUC determined that it can provide a remedy to PGE's customers, then the class action proceedings may become moot in whole or in part. The Oregon Supreme Court added that, if the OPUC determined that it cannot provide a remedy, the court system may have a role to play. The Oregon Supreme Court also ruled that the plaintiffs retain the right to return to the Marion County Circuit Court for disposition of whatever issues remain unresolved from the remanded OPUC proceedings. The Marion County Circuit Court subsequently abated the class actions in response to the ruling of the Oregon Supreme Court.

Because the above matters involve unsettled legal theories and have a broad range of potential outcomes, management cannot estimate a range of potential loss. However, management believes that these matters will not have a material impact on the financial condition of the Company, but may have a material impact on the results of operations and cash flows in future reporting periods.

Pacific Northwest Refund Proceeding

In 2001, the FERC called for a hearing to explore whether there may have been unjust and unreasonable charges for spot market sales of electricity in the Pacific Northwest from December 25, 2000 through June 20, 2001 (Pacific Northwest Refund proceeding). During that period, PGE both sold and purchased electricity in the Pacific Northwest. In 2003, the FERC issued an order terminating the proceeding and denying the claims for refunds. Parties appealed various aspects of the FERC order to the U.S. Ninth Circuit Court of Appeals (Ninth Circuit).

In August 2007, the Ninth Circuit issued a decision, concluding that the FERC failed to adequately explain how it considered or examined new evidence showing intentional market manipulation in California and its potential ties to the Pacific Northwest and that the FERC should not have excluded from the Pacific Northwest Refund proceeding purchases of energy made by the California Energy Resources Scheduling (CERS) division in the Pacific Northwest spot market. The Ninth Circuit remanded the case to the FERC to: (i) address the new market manipulation evidence

in detail and account for the evidence in any future orders regarding the award or denial of refunds in the proceedings; (ii) include sales to CERS in its analysis; and (iii) further consider its refund decision in light of related, intervening opinions of the court. The Ninth Circuit offered no opinion on the FERC's findings based on the record established by the administrative law judge and did not rule on the FERC's ultimate decision to

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deny refunds. After denying requests for rehearing, the Ninth Circuit in April 2009 issued a mandate giving immediate effect to its August 2007 order remanding the case to the FERC.

In October 2011, the FERC issued an Order on Remand, establishing an evidentiary hearing to determine whether any seller had engaged in unlawful market activity in the Pacific Northwest spot markets during the December 25, 2000 through June 20, 2001 period by violating specific contracts or tariffs, and, if so, whether a direct connection existed between the alleged unlawful conduct and the rate charged under the applicable contract. The FERC held that the Mobile-Sierra public interest standard governs challenges to the bilateral contracts at issue in this proceeding, and the strong presumption under Mobile-Sierra that the rates charged under each contract are just and reasonable would have to be specifically overcome before a refund could be ordered. FERC directed the presiding judge, if necessary, to determine a refund methodology and to calculate refunds, but held that a market-wide remedy was not appropriate, given the bilateral contract nature of the Pacific Northwest spot markets. Certain parties claiming refunds filed requests for rehearing of the Order on Remand, contesting, among other things, the applicable refund period reflected in the Order, the use of the Mobile-Sierra standard, any restraints in the Order on the type of evidence that could be introduced in the hearing, and the lack of a market-wide remedy. The rehearing requests remain pending.

In its October 2011 Order on Remand, the FERC held the hearing procedures in abeyance pending the results of settlement discussions, which it ordered be convened before a FERC settlement judge. The settlement proceedings are ongoing.

The settlement between PGE and certain other parties in the California refund case in Docket No. EL00-95, et seq., approved by the FERC in May 2007, resolved all claims between the Company and the California parties named in the settlement (including CERS) as to transactions in the Pacific Northwest during the settlement period, January 1, 2000 through June 20, 2001, but did not settle potential claims from other market participants relating to transactions in the Pacific Northwest.

Management cannot predict whether the FERC will order refunds in the Pacific Northwest Refund proceeding, which contracts would be subject to refunds, or how such refunds, if any, would be calculated. Accordingly, management cannot estimate a range of potential loss. However, management believes that the outcome will not have a material impact on the financial condition of the Company, but may have a material impact on the results of operations and cash flows in future reporting periods.

EPA Investigation of Portland Harbor

A 1997 investigation by the EPA of a segment of the Willamette River known as Portland Harbor revealed significant contamination of river sediments. The EPA subsequently included Portland Harbor on the National Priority List pursuant to the federal Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA) as a federal Superfund site and listed 69 Potentially Responsible Parties (PRPs). PGE was included among the PRPs as it has historically owned or operated property near the river. In January 2008, the EPA requested information from various parties, including PGE, concerning properties near the river. Subsequently, the EPA has listed additional PRPs, which now number over one hundred.

The Portland Harbor site is currently undergoing a remedial investigation and feasibility study (RI/FS) pursuant to an Administrative Order on Consent (AOC) between the EPA and several PRPs known as the Lower Willamette Group (LWG), which does not include PGE.

In March 2012, the LWG submitted a draft FS to the EPA for review and approval. The draft FS, along with the RI, provide the framework for the EPA to determine a cleanup remedy for Portland Harbor, which will be documented in a Record of Decision. The EPA is not expected to issue the Record of Decision until 2014.

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The draft FS evaluates several alternative cleanup approaches. These approaches would take from two to 28 years with costs ranging from \$169 million to \$1.8 billion, depending primarily on the selected remedial action levels. The draft FS does not address responsibility for the costs of cleanup, allocate such costs among PRPs, or define precise boundaries for the cleanup. Responsibility for funding and implementing the EPA's selected cleanup will be determined after the issuance of the Record of Decision.

Sufficient information is currently not available to determine PGE's liability for the cost of any required investigation or remediation of the Portland Harbor site or to estimate a range of potential loss. Management believes, however, that the outcome will not have a material impact on the financial condition of the Company, but may have a material impact on the results of operations and cash flows in future reporting periods.

DEQ Investigation of Downtown Reach

The Oregon Department of Environmental Quality (DEQ) has executed a memorandum of understanding with the EPA to administer and enforce clean-up activities for portions of the Willamette River that are upriver from the Portland Harbor Superfund site (the "Downtown Reach"). In January of 2010, the DEQ issued an order requiring PGE to perform an investigation of certain portions of the Downtown Reach. PGE completed this investigation in December 2011 and is awaiting the DEQ's certification of completion of the investigation. PGE and the DEQ are discussing the development of a feasibility study of alternatives for remedial action for the portions of the Downtown Reach that were included within the scope of PGE's investigation.

Sufficient information is currently not available to determine PGE's liability for the cost of any required investigation or remediation of the Downtown Reach site or to estimate a range of potential loss. However, management believes that the outcome will not have a material impact on the financial condition of the Company, but may have a material impact on the results of operations and cash flows in future reporting periods.

EPA Investigation of Harbor Oil

Harbor Oil, Inc. operated an oil reprocessing business on a site located in north Portland (Harbor Oil) until about 1999. Subsequently, other companies have continued to conduct operations on the site. Until 2003, PGE contracted with the operators of the site to provide used oil from the Company's power plants and electrical distribution system to the operators for use in their reprocessing business. Other entities continue to utilize Harbor Oil for the reprocessing of used oil and other lubricants.

In 1974 and 1979, major oil spills occurred at the Harbor Oil site. Elevated levels of contaminants, including metals, pesticides, and polychlorinated biphenyls, have been detected at the site. In September 2003, the EPA included the Harbor Oil site on the National Priority List as a federal Superfund site.

PGE received a Notice from the EPA in 2005, in which the Company was named as one of fourteen PRPs with respect to Harbor Oil. Subsequently, an AOC was signed by the EPA and six other parties, including PGE, to implement an RI/FS at Harbor Oil. In 2011, the final draft of the remedial investigation report was submitted to the EPA.

In March 2012, the EPA approved the remedial investigation and stated that it intends to recommend no further cleanup action on the site, based on the conclusions of the risk assessment conducted under the CERCLA. Following a public notice and comment period, the EPA is expected to issue a final Record of Decision in September 2012.

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Based on information currently available, management cannot estimate a range of potential loss with respect to this matter. However, management believes that the outcome will not have a material impact on the financial condition of the Company, but may have a material impact on the results of operations and cash flows in future reporting periods.

Revenue Bonds

In 2008, PGE repurchased \$5.8 million of Pollution Control Revenue Bonds Series 1996 (Bonds) issued through the Port of Morrow. In connection with the repurchase, PGE paid the \$5.8 million repurchase price to Lehman Brothers Inc. (Lehman) as remarketing agent for the Bonds, who in turn paid off the beneficial owner of the Bonds. As a result of the payment, PGE became the beneficial owner of the Bonds and requested that Lehman safe-keep the Bonds in Lehman's Depository Trust Company participant account until such time as the Bonds could be remarketed. After repurchase of the Bonds, PGE removed the liability for the Bonds from its financial statements.

In September 2008, Lehman filed for protection under Chapter 11 of the U.S. Bankruptcy Code. PGE subsequently filed a claim for return of the Bonds from Lehman. In November 2009, the trustee appointed to liquidate the assets of Lehman (Trustee) allowed PGE's claim as a net equity claim for securities. At the time, PGE believed it would receive back the entire amount of the Bonds at some point during the bankruptcy proceedings.

It is not certain that the Company will receive the full amount of the Bonds but could, along with other claimants, potentially receive a pro-rata share of certain assets. The timing and extent of distributions on claims are subject to the ultimate disposition of numerous claims in the proceedings and certain major contingencies which the Trustee must resolve. PGE cannot currently estimate how much of the value of the Bonds will ultimately be returned to the Company or the timing of the distribution from Lehman. Management does not expect the outcome of this matter to have a material impact on the Company's financial condition, but it may have a material impact on the results of operations and cash flows in a future interim reporting period.

Other Matters

PGE is subject to other regulatory, environmental, and legal proceedings, investigations, and claims that arise from time to time in the ordinary course of its business, which may result in judgments against the Company. Although management currently believes that resolution of such matters will not have a material effect on its financial position, results of operations, or cash flows, these matters are subject to inherent uncertainties, and management's view of these matters may change in the future.

NOTE 8: GUARANTEES

PGE enters into financial agreements and power and natural gas purchase and sale agreements that include indemnification provisions relating to certain claims or liabilities that may arise relating to the transactions contemplated by these agreements. Generally, a maximum obligation is not explicitly stated in the indemnification provisions and, therefore, the overall maximum amount of the obligation under such indemnifications cannot be reasonably estimated. PGE periodically evaluates the likelihood of incurring costs under such indemnities based on the Company's historical experience and the evaluation of the specific indemnities. As of March 31, 2012, management believes the likelihood is remote that PGE would be required to perform under such indemnification provisions or otherwise incur any significant losses with respect to such indemnities. The Company has not recorded any liability on the condensed consolidated balance sheets with respect to these indemnities.

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NOTE 9: VARIABLE INTEREST ENTITIES

PGE has determined that it is the primary beneficiary of three variable interest entities (VIEs) and, therefore, consolidates the VIEs within the Company's condensed consolidated financial statements. All three arrangements were formed for the sole purpose of designing, developing, constructing, owning, maintaining, operating, and financing photovoltaic solar power facilities located on real property owned by third parties, and selling the energy generated by the facilities. PGE is the Managing Member in each of the Limited Liability Companies (LLCs), holding less than 1% equity interest in each entity, and a financial institution is the Investor Member, holding more than 99% equity interest in each entity. PGE has determined that its interests in these VIEs contain the obligation to absorb the variability of the entities that could potentially be significant to the VIEs, and the Company has the power to direct the activities that most significantly affect the entities' economic performance.

Determining whether PGE is the primary beneficiary of a VIE is complex, subjective, and requires the use of judgments and assumptions. Significant judgments and assumptions made by PGE in determining it is the primary beneficiary of these LLCs include the following: (i) PGE has the expertise to own and operate electric generating facilities and is authorized to operate the LLCs pursuant to the operating agreements, and, therefore, PGE has control over the most significant activities of the LLCs; (ii) PGE expects to own 100% of the LLCs shortly after five years have elapsed, at which time the facilities will have approximately 75% of their estimated useful life remaining; and (iii) based on projections prepared in accordance with the operating agreements, PGE expects to absorb a majority of any expected losses of the LLCs.

Included in PGE's condensed consolidated balance sheet are LLC assets as follows (in millions):

	March 31, 2012	December 31, 2011
Cash and cash equivalents	\$1	\$1
Electric utility plant, net	5	5

These assets can only be used to settle the obligations of the consolidated VIEs.

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

Forward-Looking Statements

The information in this report includes statements that are forward-looking within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements include, but are not limited to, statements that relate to expectations, beliefs, plans, assumptions and objectives concerning future operations, business prospects, expected changes in future loads, the outcome of litigation and regulatory proceedings, future capital expenditures, market conditions, future events or performance and other matters. Words or phrases such as "anticipates," "believes," "estimates," "expects," "intends," "plans," "predicts," "projects," "will likely result," "will continue," "should," or similar expressions are intended to identify such forward-looking statements.

Forward-looking statements are not guarantees of future performance and involve risks and uncertainties that could cause actual results or outcomes to differ materially from those expressed. PGE's expectations, beliefs and projections are expressed in good faith and are believed by PGE to have a reasonable basis including, but not limited to, management's examination of historical operating trends and data contained in records and other data available from third parties, but there can be no assurance that PGE's expectations, beliefs or projections will be achieved or accomplished.

In addition to any assumptions and other factors and matters referred to specifically in connection with such forward-looking statements, factors that could cause actual results or outcomes for PGE to differ materially from those discussed in forward-looking statements include:

governmental policies and regulatory audits, investigations and actions, including those of the FERC and OPUC with respect to allowed rates of return, financings, electricity pricing and price structures, acquisition and disposal of facilities and other assets, construction and operation of plant facilities, transmission of electricity, recovery of power costs and capital investments, and current or prospective wholesale and retail competition;

the effects of weak economies in the state of Oregon and the United States, including decreased demand for electricity, reduced revenue from sales of excess energy during periods of low wholesale market prices, impaired financial stability of vendors and service providers and elevated levels of uncollectible customer accounts;

the outcome of legal and regulatory proceedings and issues including, but not limited to, the matters described in Note 7, Contingencies, in the Notes to Condensed Consolidated Financial Statements;

unseasonable or extreme weather and other natural phenomena, which can affect customers' demand for power and could significantly affect PGE's ability and cost to procure adequate power and fuel supplies to serve its customers, and could increase the Company's costs to maintain its generating facilities and transmission and distribution systems;

operational factors affecting PGE's power generation facilities, including forced outages, hydro and wind conditions, and disruption of fuel supply, which may cause the Company to incur repair costs, as well as increased power costs for replacement power;

volatility in wholesale power and natural gas prices, which could require the Company to issue additional letters of credit or post additional cash as collateral with counterparties pursuant to existing power and natural gas purchase agreements;

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capital market conditions, including access to capital, interest rate volatility, reductions in demand for investment-grade commercial paper and the availability and cost of capital, as well as changes in PGE's credit ratings, which could have an impact on the Company's cost of capital and its ability to access the capital markets to support requirements for working capital, construction costs, and the repayments of maturing debt;

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future laws, regulations, and proceedings that could increase the Company's costs or affect the operations of the Company's thermal generating plants by imposing requirements for additional emissions controls or significant emissions fees or taxes, particularly with respect to coal-fired generation facilities, in order to mitigate carbon dioxide, mercury and other gas emissions;

changes in wholesale prices for natural gas, coal, oil, and other fuels and the impact of such changes on the Company's power costs and the availability and price of wholesale power in the western United States;

changes in residential, commercial, and industrial customer growth, and in demographic patterns, in PGE's service territory;

the effectiveness of PGE's risk management policies and procedures and the creditworthiness of customers and counterparties;

the failure to complete capital projects on schedule and within budget;

declines in the fair value of equity securities held for the defined benefit pension plans and other benefit plans, which could result in increased funding requirements for such plans;

changes in, and compliance with, environmental and endangered species laws and policies;

the effects of climate change, including changes in the environment that may affect energy costs or consumption, increase the Company's costs, or adversely affect its operations;

new federal, state, and local laws that could have adverse effects on operating results;

cyber security attacks, data security breaches, or other malicious acts that cause damage to the Company's generation and transmission facilities, information technology systems, or result in the release of confidential customer and proprietary information;

employee workforce factors, including aging, potential strikes, work stoppages, and transitions in senior management;

general political, economic, and financial market conditions;

natural disasters and other risks, such as earthquake, flood, drought, lightning, wind, and fire;

financial or regulatory accounting principles or policies imposed by governing bodies; and

acts of war or terrorism.

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

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Overview

Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) is intended to provide an understanding of the business environment, results of operations, and financial condition of PGE. MD&A should be read in conjunction with the Company's condensed consolidated financial statements contained in this report, as well as the consolidated financial statements and disclosures in its Annual Report on Form 10-K for the year ended December 31, 2011, and other periodic and current reports filed with the SEC.

Operating Activities — PGE is a vertically integrated electric utility engaged in the generation, transmission, distribution, and retail sale of electricity, as well as the wholesale purchase and sale of electricity and natural gas. The Company generates revenues and cash flows primarily from the sale and distribution of electricity to customers in its service territory.

The Company's revenues and income from operations can fluctuate from period to period due to the impact of seasonal weather conditions on demand for electricity. Price changes and customer usage patterns (which can be affected by the economy) also have an effect on revenues while the availability and price of purchased power and fuel can affect income from operations. PGE is a winter-peaking utility that typically experiences its highest retail energy sales during the winter heating season, with a slightly lower peak in the summer that generally results from air conditioning demand.

Customers and Demand — Retail energy deliveries for the three months ended March 31, 2012 decreased 0.8% from the comparable period of 2011 largely as a result of a decrease in industrial demand. One paper production customer ceased operations in February 2011 and weakness in demand from certain customers in the industrial sector in early 2012 contributed to the decline, which was partially offset by an increase of 3,700 in the average number of total retail customers served.

The following table indicates the average number of retail customers, including those customers who chose to purchase their energy from an Electricity Service Supplier (ESS), and energy deliveries, by customer class, for the periods indicated:

	Three Months Ended March 31, 2012		2011		Increase /(Decrease)in Energy Deliveries (%)
	Average Number of Customers	Energy Deliveries *	Average Number of Customers	Energy Deliveries *	
Residential	722,197	2,259	719,615	2,291	(1.4)
Commercial	102,169	1,839	101,018	1,831	0.4
Industrial	266	1,006	258	1,024	(1.8)
Total	824,632	5,104	820,891	5,146	(0.8)

*In thousands of MWh.

PGE projects that weather adjusted retail energy deliveries for 2012 will be comparable to 2011 weather adjusted levels, after allowing for energy efficiency and conservation efforts. Excluding two paper production customers, retail energy deliveries for 2012 are expected to be approximately 1% to 1.5% higher than 2011 levels on a weather adjusted basis. One of these paper customers ceased operations early in 2011. The other customer purchases a significant portion of its energy requirements at market prices under the Company's Economic Replacement Power program and,

accordingly, changes in the customer's demand do not significantly affect the Company's gross margin. Excluding the deliveries to these two paper customers from the table above, total energy deliveries would show a decrease of only 0.4% in the three months ended March 31, 2012, compared to the same period of 2011.

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Power Operations — To meet the energy needs of its retail customers, the Company utilizes a combination of its own generating resources and wholesale market transactions. Based on numerous factors, including plant availability, customer demand, river flows, wind conditions, and current wholesale prices, PGE makes economic dispatch decisions continuously in an effort to obtain reasonably-priced power for its retail customers. In addition, PGE's thermal generating plants require varying levels of annual maintenance, during which the respective plant is unavailable to provide power. As a result, the amount of power generated and purchased in the wholesale market to meet the Company's retail load requirement can vary from period to period.

During the three months ended March 31, 2012, the Company's generating plants provided approximately 59% of its retail load requirement, compared with 42% in the three months ended March 31, 2011. The increase in the relative volume of power generated to meet the Company's retail load requirement was primarily due to the economic displacement of a significant amount of thermal generation by lower cost purchased power during the first quarter of 2011.

Energy received from PGE-owned hydroelectric plants and under contracts from mid-Columbia hydroelectric projects decreased 27% in the three months ended March 31, 2012 compared with the three months ended March 31, 2011. These resources provided approximately 19% of the Company's retail load requirement for the three months ended March 31, 2012, compared with 26% for the three months ended March 31, 2011. Energy received from these sources exceeded projections included in the Company's Annual Power Cost Update Tariff (AUT) by approximately 6% during the three months ended March 31, 2012, compared with 16% during the first quarter of 2011. Such projections, which are finalized with the OPUC in November each year, establish the power cost component of retail prices for the following calendar year, based on average regional hydro conditions. Any excess in hydro generation from that projected in the AUT generally displaces power from higher cost sources, while any shortfall is generally replaced with power from higher cost sources. Energy from hydro resources is expected to be slightly above projections included in the AUT for 2012.

Energy expected to be received from wind generating resources is projected annually in the AUT and is based on wind studies completed in connection with the permitting of the wind farm. Any excess in wind generation from that projected in the AUT generally displaces power from higher cost sources, while any shortfall is generally replaced with power from higher cost sources. Wind resources provided approximately 6% of the Company's retail load requirement for the three months ended March 31, 2012, and 2011. Energy received from PGE-owned wind generating resources (Biglow Canyon) fell short of that projected in PGE's AUT by 12% and 21%, in the three months ended March 31, 2012 and 2011, respectively.

Availability of the plants PGE operates approximated 99% and 98%, for the three months ended March 31, 2012 and 2011, respectively, with the availability of Colstrip, which PGE does not operate, approximating 96% and 94%, for the same periods, respectively.

Pursuant to the Company's power cost adjustment mechanism (PCAM), customer prices can be adjusted to reflect a portion of the difference between each year's forecasted net variable power costs (NVPC) included in prices (baseline NVPC) and actual NVPC for the year, to the extent such difference is outside of a pre-determined "deadband." The PCAM provides for 90% of actual NVPC above or below the deadband to be collected from or refunded to customers, respectively, subject to a regulated earnings test. Any estimated refund to customers pursuant to the PCAM is recorded as a reduction in Revenues in the Company's statements of income; any estimated collection from customers is recorded as a reduction in Purchased power and fuel expense. For 2012 and 2011, the deadband range is from \$15 million below to \$30 million above baseline NVPC.

For the three months ended March 31, 2012, actual NVPC was approximately \$5 million below baseline NVPC, due to improved hydro generation, and sales of excess transmission capacity. These improvements against baseline, are partially offset by higher fuel costs for thermal generation and lower than expected wind generation. Based on forecast data, NVPC for the year ending December 31, 2012 is currently estimated to be below the baseline

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NVPC but within the established deadband range. As a result, no estimated refund to customers was recorded as of March 31, 2012. For the three months ended March 31, 2011, actual NVPC was approximately \$19 million below baseline NVPC, with PGE recording an estimated refund to customers of approximately \$4 million as of March 31, 2011.

Capital Requirements and Financing — PGE's capital requirements for 2012 are related primarily to ongoing expenditures for the upgrade, replacement, and expansion of transmission, distribution, and generation infrastructure, as well as technology enhancements and expenditures related to hydro licensing and construction. Capital expenditures are expected to be approximately \$334 million in 2012, of which \$69 million was incurred through March 31. For further information, see the Capital Requirements section of Liquidity and Capital Resources in this Item 2.

For 2012, the Company expects to meet capital requirements with cash from ongoing operations, with no issuances of long-term debt or equity. In subsequent years, the Company expects to fund its capital requirements with a combination of cash from operations and funds from the capital markets as internal liquidity needs and market conditions warrant. The Company also expects that the borrowing capacity under its credit facilities will continue to be available to manage working capital requirements during those periods. For further information, see the Debt and Equity Financings section of Liquidity and Capital Resources in this Item 2.

PGE's 2009 Integrated Resource Plan (IRP), acknowledged by the OPUC in November 2010 and updated in November 2011, includes the Company's strategy for acquiring new resources over the next several years and a 20-year strategy outlining long-term expectations for resource needs and portfolio management. To meet projected energy requirements, the IRP includes energy efficiency measures, additional renewable resources, new transmission capability, new generation, and improvements to existing generating plants.

In accordance with the IRP acknowledgement and pursuant to the OPUC's competitive bidding guidelines, the Company plans to issue two requests for proposals (RFPs) for additional resources during 2012, with one seeking a combination of capacity and energy resources and the second seeking renewable resources. PGE expects to submit self-build proposals in each competitive bidding process for new resources.

A draft of the first RFP was submitted to the OPUC in January 2012 and seeks approximately:

- 300 to 500 MW of base load energy resources;
- 200 MW of year-round flexible and peaking resources;
- 200 MW of bi-seasonal (winter and summer) peaking supply; and
- 150 MW of winter-only peaking supply.

The OPUC is scheduled to consider the first RFP for approval in June 2012, with proposals, or bids, due within 60 days of the approval. It is expected that the winning bids will be chosen in late 2012 or early 2013.

The flexible and peaking resources would be expected to be available in the 2013 to 2015 time frame with the base load energy resources expected to be available in the 2015 to 2017 time frame.

The second RFP would seek approximately 100 MWa of renewable resources. The renewable resources are anticipated to be in service to meet PGE's 2015 requirements under Oregon's Renewable Portfolio Standard. PGE

expects to issue the second RFP in the second half of 2012.

The IRP includes a proposal for an approximately 210-mile, 500 kV transmission line referred to as the Cascade Crossing Transmission Project, or Cascade Crossing, that would help meet future electricity demand and improve regional grid reliability. The project would transmit power from new and existing energy resources in

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eastern Oregon to the Company's service territory. PGE continues to work with other stakeholders in the region in planning the project and is actively engaged in the federal, state, and tribal permitting processes. Subject to obtaining all necessary approvals, the expected in-service date would be late 2016 or early 2017.

For additional information, see the Capital Requirements section of Liquidity and Capital Resources in this Item 2.

Legal, Regulatory, and Environmental Matters — PGE is a party to certain proceedings, the ultimate outcome of which may have a material impact on the results of operations and cash flows in future reporting periods. Such proceedings include, but are not limited to, the following matters:

• Challenges to recovery of the Company's investment in its closed Trojan plant;

• Claims for refunds related to wholesale energy sales during 2000 - 2001 in the Pacific Northwest; and

• An investigation of environmental matters regarding Portland Harbor.

For additional information regarding the above and other matters, see Note 7, Contingencies, in the Notes to Condensed Consolidated Financial Statements.

The following discussion highlights certain regulatory items that have impacted the Company's revenues, results of operations, or cash flows for the three months ended March 31, 2012 compared to the three months ended March 31, 2011 or affected retail customer prices, as authorized by the OPUC. In some cases, the Company deferred the related expenses or benefits as regulatory assets or liabilities, respectively, for later amortization and inclusion in customer prices, pending OPUC review and authorization.

General Rate Case — In PGE's 2011 General Rate Case, the OPUC approved a tariff that provides a mechanism for future consideration of customer price changes related to the recovery of the Company's remaining investment in the Boardman generating plant over a shortened operating life. Pursuant to the tariff, the OPUC approved recovery of increased depreciation expense reflecting a change in the retirement date of Boardman from 2040 to 2020, with new prices effective July 1, 2011, which provided incremental revenues for the last six months of 2011 of \$7 million. An additional increase of approximately \$6 million in annual revenue went into effect for 2012 as a result of this tariff change, primarily due to the mid-year application of the tariff in 2011.

Power Costs — Pursuant to the AUT process, PGE annually files an estimate of power costs for the following year. In November 2011, the OPUC issued an order on the 2012 AUT resulting in an estimated 1% decrease in customer prices. The new prices became effective January 1, 2012 and are expected to result in a decline of approximately \$22 million in annual revenue, as a result of expected lower power costs.

Renewable Resource Costs — Pursuant to a renewable adjustment clause mechanism (RAC), PGE can recover in customer prices prudently incurred costs of renewable resources that are expected to be placed in service in the current year. The Company may submit a filing to the OPUC by April 1st each year, with prices expected to become effective January 1st of the following year.

In March 2012, PGE submitted a filing for a small solar installation, which is expected to result in a nominal credit to customer prices for a one-year period beginning January 1, 2013. The Company did not submit a RAC filing in April 2011 as it did not anticipate approved renewable resource additions would be placed into service during 2011.

The OPUC had previously approved recovery over a one-year period beginning January 1, 2011 of \$22 million under the RAC for eligible deferred costs and a return on the Company's investment related to Biglow Canyon Phase III and a residual balance from the previous deferral of Biglow Canyon Phase II.

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Decoupling — The decoupling mechanism is intended to provide for recovery of reduced revenues resulting from a reduction in electricity sales attributable to energy efficiency and conservation efforts by residential and certain commercial customers. The mechanism provides for customer collection (or refund) if weather adjusted use per customer is less (or more) than the levels approved in the Company's most recent general rate case.

For the three month period ended March 31, 2012, the Company has recorded an estimated refund of \$1 million. Any estimated refund or collection for the 2012 calendar year would be provided to customers under a tariff that would begin June 1, 2013.

During 2011, PGE recorded an estimated refund of \$2 million that is expected to be provided to customers over a one year period beginning June 1, 2012 as weather adjusted use per customer was greater than levels projected in the 2011 General Rate Case.

For 2010, the Company recorded an estimated collection of \$8 million, as weather adjusted use per customer was less than levels included in the 2009 General Rate Case. After review, the OPUC approved collections from customers over a one-year period that began June 1, 2011.

Refund of tax credits — In 2011, PGE provided credits to customers for tax credits the Company had accumulated related to the Independent Spent Fuel Storage Installation at the former Trojan site. The discontinuance of the customer credits on January 1, 2012 will have the effect of increasing the Company's annual revenues by approximately \$18 million.

The overall impact to annual revenues, as a result of the tariff changes effective January 1, 2012, is expected to be a reduction of approximately \$26 million.

Critical Accounting Policies

PGE's critical accounting policies are outlined in Item 7 of the Company's Annual Report on Form 10 K for the year ended December 31, 2011, filed with the SEC on February 24, 2012.

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Results of Operations

The following table contains condensed consolidated statements of income information for the periods presented (dollars in millions):

	Three Months Ended					
	2012		March 31,			
				2011		
Revenues, net	\$479	100	%	\$484	100	%
Purchased power and fuel	195	41		194	40	
Gross margin	284	59		290	60	
Operating expenses:						
Production and distribution	53	11		42	9	
Administrative and other	54	11		52	11	
Depreciation and amortization	62	13		56	11	
Taxes other than income taxes	27	6		25	5	
Total operating expenses	196	41		175	36	
Income from operations	88	18		115	24	
Other income:						
Allowance for equity funds used during construction	1	—		1	—	
Miscellaneous income, net	3	1		2	—	
Other income, net	4	1		3	1	
Interest expense	28	6		27	6	
Income before income taxes	64	13		91	19	
Income taxes	15	3		22	5	
Net income and net income attributable to Portland General Electric Company	\$49	10	%	\$69	14	%

Net income attributable to Portland General Electric Company was \$49 million, or \$0.65 per diluted share, for the first quarter of 2012 compared with \$69 million, or \$0.92 per diluted share, for the first quarter of 2011, a decrease of \$20 million, or 29%. The decrease in net income was predominantly driven by: a 27% reduction in hydro generation; decreased energy deliveries; and higher production and distribution costs as a result of increased thermal generation.

During the first quarter of 2011, a significant amount of thermal generation was economically displaced with lower-cost power purchased in the wholesale market and increased hydro and wind generation.

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Revenues, energy deliveries (presented in MWh), and the average number of retail customers were as follows for the periods presented:

	Three Months Ended March 31,							
	2012		2011					
Revenues ⁽¹⁾ (dollars in millions):								
Retail:								
Residential	\$256	53	%	\$256	53	%		
Commercial	156	33		156	32			
Industrial	53	12		54	11			
Subtotal	465	98		466	96			
Other - accrued revenues	(3)	(1)	(3)	(1)
Total retail revenues	462	97		463	95			
Wholesale revenues	10	2		13	3			
Other operating revenues	7	1		8	2			
Total revenues	\$479	100	%	\$484	100	%		
Energy deliveries ⁽²⁾ (MWh in thousands):								
Retail:								
Residential	2,259	42	%	2,291	41	%		
Commercial	1,839	33		1,831	33			
Industrial	1,006	18		1,024	18			
Total retail energy deliveries	5,104	93		5,146	92			
Wholesale energy deliveries	388	7		477	8			
Total energy deliveries	5,492	100	%	5,623	100	%		
Average number of retail customers:								
Residential	722,197	88	%	719,615	88	%		
Commercial	102,169	12		101,018	12			
Industrial	266	—		258	—			
Total	824,632	100	%	820,891	100	%		

(1) Includes both revenues from customers who purchase their energy supplies from the Company and revenues from the delivery of energy to those commercial and industrial customers that purchase their energy from ESSs.

(2) Includes both energy sold to retail customers and energy deliveries to those commercial and industrial customers that purchase their energy from ESSs.

Total revenues decreased \$5 million, or 1%, in the first quarter of 2012 compared with the first quarter of 2011 primarily as a result of the items described below.

Retail revenues are generated by the sale and delivery of energy to retail customers as well as from the delivery of energy that certain commercial and industrial customers purchase from ESSs. Retail revenues also include certain accrued revenues, comprised primarily of deferrals of amounts related to the PCAM, the decoupling mechanism, and the RAC filings.

Total retail revenues decreased \$1 million in the first quarter of 2012 compared to the first quarter of 2011. The comparable figures resulted primarily from the combination and net effect of the following items:

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An \$8 million decrease from a lower volume of energy sold due to one large industrial customer that transitioned to direct access and a weakness in demand from certain customers in the industrial sector in early 2012;

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• A \$3 million decrease related to changes in the average retail price, resulting primarily from tariff changes effective January 1, 2012 as authorized by the OPUC;

• A \$2 million decrease related to decoupling, with a \$1 million estimated refund recorded in 2012 compared to a \$1 million collection in 2011; partially offset by

• A \$5 million increase as a result of credits provided to customers during 2011 related to the Independent Spent Fuel Storage Installation that were not applicable in 2012;

• A \$3 million increase resulting from increased deliveries to direct access customers; and

• A \$4 million increase resulting from several items, the largest of which amounted to just over \$1 million including the reversal in 2012 of a refund recorded in 2011 for FERC land use fees, the recovery of costs for the solar feed-in tariff, and the difference in the PCAM, with a \$4 million estimated refund recorded in the first quarter 2011 and an additional \$3 million refund adjustment recorded in the first quarter 2012 related to the 2011 PCAM.

Heating degree-days are an indication of the likelihood that customers will use electricity for heating and are used to measure the effects of weather on the demand for electricity. Total heating degree-days in the first quarter of 2012 were comparable to 2011 levels and 6% above historical averages.

The following table indicates the number of heating degree-days for the periods presented, along with 15-year averages provided by the National Weather Service, as measured at Portland International Airport:

	Heating Degree-days	
	2012	2011
January	740	714
February	618	683
March	609	577
1st quarter	1,967	1,974
15-year average for the quarter	1,848	1,845

Wholesale revenues result from sales of electricity to utilities and power marketers that are made in conjunction with the Company's effort to secure reasonably priced power for retail customers, manage risk, and administer long-term wholesale contracts. Such sales can vary significantly period to period. Wholesale revenues in the first quarter of 2012 declined \$3 million, or 23%, compared to the first quarter of 2011, as the result of a 19% decrease in sales volume and a 2% decrease in average price. Lower wholesale market prices were driven by low natural gas prices resulting from increased natural gas production and the mild winter in the eastern half of the United States.

Purchased power and fuel expense was \$195 million for the first quarter of 2012, an increase of \$1 million, or 1%, compared with \$194 million for the first quarter of 2011, with \$8 million related to a 5% increase in average variable power cost partially offset by a \$7 million decline due to a 3% decrease in total system load. The average variable power cost increased to \$35.49 per MWh in the first quarter of 2012 compared with \$33.94 per MWh in the first quarter of 2011.

Thermal generation represented 43% of PGE's total retail load requirement for the first quarter of 2012 compared with 27% in the first quarter of 2011. A significant amount of thermal generation was economically displaced during the first quarter of 2011 by lower cost purchased power due to increased energy from above normal hydro generation.

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PGE's sources of energy, as well as total system load and retail load requirement, are as follows for the periods presented:

	Three Months Ended					
	March 31, 2012			2011		
Sources of energy (MWh in thousands):						
Generation:						
Thermal:						
Coal	1,077	20	%	1,133	20	%
Natural gas	1,130	20		268	4	
Total thermal	2,207	40		1,401	24	
Hydro	583	11		570	10	
Wind	246	4		217	4	
Total generation	3,036	55		2,188	38	
Purchased power:						