PORTLAND GENERAL ELECTRIC COMPANY

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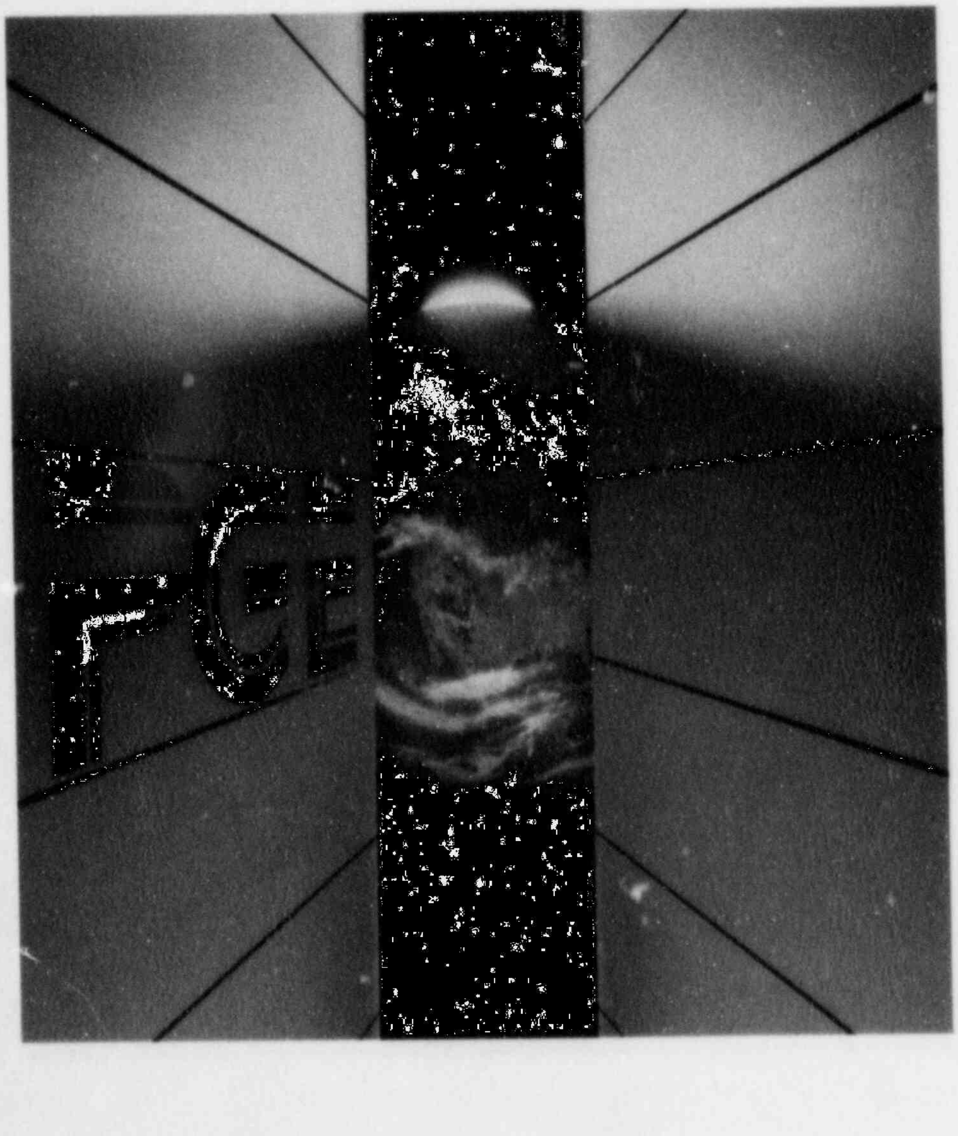
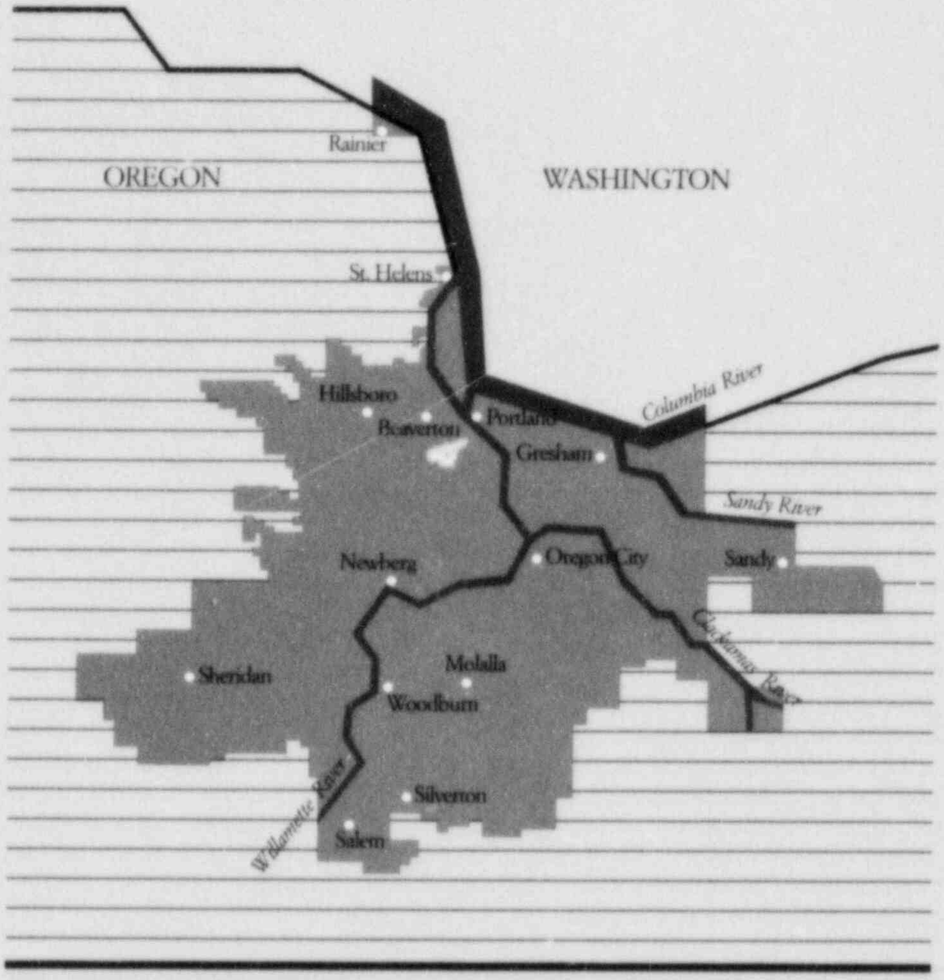


REACHING
OUT
IN NEW
DIRECTIONS

ANNUAL REPORT

ABOUT THE COVER

REACHING OUT IN NEW DIRECTIONS IS NOT ONLY EXCITING BUT ESSENTIAL IN TODAY'S CHANGING ENVIRONMENT. AS WE ACTIVELY EVALUATE NEW BUSINESS DEVELOPMENT OPPORTUNITIES OUR HORIZONS ARE EXPANDING TO INCLUDE THE PACIFIC RIM COUNTRIES AS WELL AS OTHER PARTS OF THE WORLD.



LOCATED IN THE HEART OF OREGON'S POPULATION CENTER, PGE PROVIDES SERVICE TO A 3,170 SQUARE-MILE AREA IN THE STATE-APPROVED ALLOCATION OF 4,070 SQUARE MILES. THE COMPANY SERVES MORE THAN 40% OF OREGON'S ELECTRIC CUSTOMERS.

HIGHLIGHTS

	1984	1983	% Increase (Decrease)
Operating revenues	**$ 722,068,000**	$ 586,404,000	23.1
Net income	**$ 158,364,000**	$ 114,144,000	38.7
Income available for common stock	**$ 123,892,000**	$ 79,334,000	56.2
Earnings per average common share			
Before extraordinary item	**$2.80**	$3.01	(7.0)
Extraordinary item	**—**	(1.14)	—
After extraordinary item	**$2.80**	$1.87	49.7
Dividends declared per common share	**$1.81**	$1.77	2.3
Book value per common share	**$19.05**	$18.18	4.8
Return on average common equity before extraordinary item	**15.10%**	16.57%	(8.9)
Net utility plant	**$1,962,937,000**	$2,018,627,000	(2.8)
Gross utility construction expenditures	**$ 128,957,000**	$ 191,131,000	(32.5)
Kilowatt-hours sold (in thousands) to ultimate customers	**13,144,000**	12,460,000	5.5
Customers served at year-end	**516,129**	515,328	.2
Average kilowatt hours used per residential customer	**12,644**	12,027	5.1

CONTENTS

"1984 was a dramatically UP year for PGE. Our internal cost control and increased marketing efforts are showing positive results."

Electric sales to customers UP 6%.

Residential connections UP 7.4%.

Operating revenues UP 23%.

Net income UP 39%.

Earnings per common share UP 50%.

Common stock market value UP 24%.

Dividends per common share UP to $1.82.

Moody's UPgrades securities 3 steps:

First Mortgage Bonds	UP to A2 from Baa 2
Preferred Stock	UP to a3 from baa 3

Standard & Poor's UPgrades securities:

First Mortgage Bonds	UP to A from BBB +
Preferred Stock	UP to A- from BBB-

"1985 looks good. We will continue our efforts to be flexible and innovative and profitably adapt to and manage changing conditions."

Robert H. Short

Robert H. Short
Chairman of the Board
and Chief Executive Officer

March 1985

CALENDAR 1984

January

- Colstrip Unit 3 goes into commercial operation. PGE owns 20 percent of the 700,000 kw coal fired plant in Montana.
- PGE agrees to transfer 2 percent of its customers and a portion of its distribution system to Columbia River People's Utility District in exchange for $13 million to end a condemnation suit.

February

- Trojan Nuclear Plant sets continuous operation record of 133 days.
- Oregon PUC grants rate increase to cover an increase in the Bonneville Power Administration's transmission rates and a tax levied by the Warm Springs Indians on two PGE hydro projects.
- BPA reveals plan to change the federal power exchange costs which would increase rates to PGE's residential and farm customers as much as 38 percent.
- PGE forms subsidiaries Western EnerTech and Western EnerTech Financial to provide energy management services to commercial and industrial customers.

March

- Standard & Poor's upgrades ratings on PGE's first mortgage bonds and preferred stock.
- Project HELP campaign ends having raised more than $280,000 to help needy families with their winter heating needs.
- Dr. Jerry Hudson, President of Willamette University, named to PGE's Board of Directors.
- IBEW Local 125 members ratify new contract with PGE including a three year wage freeze.
- Joseph L. Williams, Vice Chairman of the Board, retires.

April

- Trojan shuts down for annual refueling and maintenance.
- Company announces offering of up to 100,000 kw long-term power sale and up to 200,000 kw in ownership of Boardman Coal Plant and Trojan, along with an equivalent share of the high-voltage Northwest Intertie.

May

- Directors approve increase in common stock dividend to an effective annual rate of $1.82.
- "Repair Don't Replace" your water heater is the theme of PGE's new "Hot Watr" marketing program.
- Meter readers begin electronic meter reading, improving accuracy and efficiency.
- Trojan Visitors Information Center hosts its millionth visitor.

June

- Montana Power Co. reschedules completion of Colstrip Unit 4 until mid-1986.
- Trojan employees complete one million manhours without a lost-time accident.
- Petitions signed by 22,000 PGE customers and resolutions from 43 local governments are submitted to the Federal Energy Regulatory Commission seeking full review of BPA changes to the federal power exchange costs. FERC agrees.

July

- Residential and farm rates decrease 3.9 percent with a 10 percent increase in the amount of the Federal power exchange.
- PGE invests in Synektron, a Portland area manufacturer of computer disk-drive motors, and Montgomery Ventures II, a venture capital firm in California.

Like its diversified energy resources, the varied backgrounds and experience of its Management Committee greatly contribute to the strength and success of your Company. From left, President William J. Lindblad has a background in power system operations, engineering and construction; Senior Vice President and General Counsel James W. Durham brings experience in the legal and political arenas; while Vice President of Power Systems Leslie E. Hodel has managed several operating, engineering and purchasing areas.

- "Good Cents" marketing program begins as a step to encourage the construction of electrically heated, energy-efficient homes and apartments.

August

- Transfer of customers to Columbia River PUD is completed with PGE retaining the largest industrial customer in the area.
- PGE forms subsidiary, Columbia-Willamette Development Co., to develop company-owned, and other properties.

September

- FERC approves modified BPA changes to the federal power exchange costs. Rates for PGE residential and farm customers will rise 9.5 percent in November.

- PGE campgrounds and parks close for the season having been enjoyed by more than 500,000 visitors.

October

- Open House held for first Good Cents home.
- Warm Springs Indians and PGE sign new rental agreement through the year 2001 for property for the 398,000 kw Pelton/Round Butte hydro projects.
- Trojan returns to operation.

November

- Oregon voters approve formation of a Citizens Utility Board to be supported by voluntary membership.
- Expansion of spent fuel pool capacity at Trojan receives federal approval allowing the plant to store fuel until government waste depository is in operation in late 1990s.

- Chaired by Board Chairman Robert H. Short, Portland area United Way campaign meets its goal for the first time since 1980.
- U.S. District Court rules BPA and the Supply System breached their contract with PGE and three other private utilities when a construction halt was forced on Washington Nuclear Project-3 (WNP-3).

December

- Company files more than \$500 million in damage claims against BPA and the Supply System due to the breach of contract on WNP-3.
- PGE common stock closes the year at 16⅜ per share, up 24 percent from a year earlier.

1985

January

- Structure of a proposal to end litigation surrounding WNP-3 is agreed upon by BPA, the Supply System, PGE and three other investor-owned utilities.

February

- Moody's Investors Service upgrades its rating of PGE's first mortgage bonds to an A2 and preferred stock to an a3, their highest rating for PGE securities in our 95-year history.

March

- Standard & Poor's upgrades its ratings to an A for PGE's first mortgage bonds and an A- for the Company's preferred stock.
- Robert G. Cameron, Executive Vice President, Lloyd Corporation, named to PGE's Board of Directors.

Further broadening the depth of PGE's Management Committee are, from left, Vice President E. Kay Stepp, who brings expertise in human resources and administrative management; Senior Vice President and Chief Financial Officer Ken L. Harrison, with in-depth knowledge of finance, accounting, investments and new business development; and Senior Vice President of Electric Operations Charles L. Heinrich with a background in engineering, economics and regulatory affairs.

FINANCIAL REVIEW

Years of teamwork and effort to resolve financial problems with unfinished nuclear projects and to put an effective cost control and planning system into place were rewarded with excellent financial performance in 1984.

These achievements did not go unnoticed. The nation's three largest securities rating agencies upgraded their ratings for PGE's securities in 1984 and early 1985.

Financial targets were met or exceeded in all areas of the Company.

Earnings increase

Earnings increased to $2.80 a share in 1984, up from $1.87 a year earlier. Total revenues were $722 million in 1984, compared with $586 million in 1983.

Operating income was $271 million while net income was $158 million in 1984, compared with $209 million and $114 million the year before.

The Company achieved a return on common equity of 15.1 percent in 1984.

Construction expenditures were held to $129 million in 1984, a substantial decrease from $191 million in 1983 and a peak of $306 million in 1982. Completion of Colstrip Unit 3, a schedule delay in Unit 4 and the mothballing of Supply System Unit 3 were principal factors in reducing these expenditures.

1984 capital requirements were met entirely with cash flow from operations. Indeed, the Company had sufficient cash flow to meet all of its needs even if work on the two power plants had continued on schedule.

Continued strengthening of the Company's capital structure was accomplished as debt was reduced to 46 percent of total capitalization.

In their May 1984 annual review, PGE's Directors voted to increase the dividend to an effective annual rate of $1.82 per share. The dividend had been $1.78 per share.

Ratings Upgraded

Important recognition of these financial improvements began in March 1984, when Standard & Poor's initially upgraded its ratings for PGE's first mortgage bonds and preferred stock.

Duff & Phelps upgraded its ratings for PGE's securities later in 1984.

Then came a three step upgrade in February 1985, by Moody's Investors Service. It now rates PGE's first mortgage bonds an A2 and our preferred stock an a3. These are the highest ratings Moody's has ever given to PGE securities.

A second upgrading from Standard & Poor's to an A rating for PGE's first mortgage bonds and an A- for its preferred stock came one month later.

A dramatic rise in the market price of PGE's common stock was another important sign of the Company's improving condition. The stock closed at 16⅜ per share on December 31, 1984, having achieved a high of 17½ some two weeks earlier. PGE common stock had closed 1983 at 13¼ per share.

Favorable Rate Action

PGE received PUC approval to include in rates its $237 million investment in Colstrip Unit 3. It also was given permission to amortize over five years $36 million of its investment in the terminated Skagit/Hanford Nuclear Project.

Changes in pricing policies by the Bonneville Power Administration also had an influence on PGE's electric rates in 1984. Tracking increases were granted PGE by the Oregon Public Utility Commissioner to cover BPA's increases in wholesale power and transmission rates and changes to the Regional Power Act power exchange.

The Company did not seek a general rate increase in 1984.

Helping its customers succeed is important to PGE's success. By learning more about Oregon Steel's business, PGE was able to develop a revised rate and use schedule to help the metal fabricator operate more efficiently and become more competitive.

POWER SUPPLY & DEMAND

Oregon's rebounding economy coupled with excellent hydroelectric conditions led to increases in sales of electricity to all customer groups in 1984.

Overall, PGE sold some 15.4 billion kilowatt hours of electricity; an 8 percent increase from 1983.

Sales to the 516,000 residential, commercial and industrial customers in PGE's service area totalled 13 billion kwh—up 6 percent.

Reflecting the improving economy, PGE connected some 5,000 new homes to its system in 1984; 7.6 percent more than in 1983. The Company's residential customers used an average of 12,644 kwh for the year, up from 12,027 in 1983.

Sales To Others Jump

At the same time sales were up 22 percent to other utilities in the Pacific Northwest and California. PGE's partial ownership of the high voltage Pacific Northwest Intertie enables it to sell as much as 700,000 kw to utilities in California and the southwest.

Hydroelectric power was the biggest contributor to meeting the greater demand in 1984. Energy from the eight hydro projects PGE owns, and five with which it has long-term contracts, met 45 percent of needs.

Again in 1984, the PGE-operated Trojan Nuclear Plant was the second largest contributor. About 23 percent of net load requirements were met by PGE's two-thirds share of the 1.1 million kw plant.

Trojan broke its previous record when it shutdown briefly February 18 after 133 days of continuous operation. It was taken off-line for annual refueling and maintenance in April and unplanned repairs extended the shutdown.

New Plant Added

Commercial operation was declared in January 1984 at the 700,000 kw Colstrip Unit 3 coal-fired plant, in Colstrip, Montana. PGE owns 20 percent of the plant and received enough electricity from it in 1984 to meet 5 percent of needs.

PGE also owns 20 percent of Colstrip Unit 4. Completion of this 700,000 kw plant has been postponed until mid-1986 to better coincide with projected demand. Both units are being built and operated by Montana Power Co.

Economy shutdown conditions were maintained for most of 1984 at PGE's 530,000 kw Boardman Coal Plant. Still, PGE's 80 percent share of the plant's energy provided 4 percent of needs.

Operation of the Company's oil and natural gas-fired combustion turbines was not necessary in 1984.

Potential WNP-3 Settlement

The once bustling hilltop site of Washington Nuclear Project-3 (WNP-3) remained silent during 1984. As has been the case for the past two years, all of the noise was in the courtroom.

Work on WNP-3 was suspended by the Bonneville Power Administration (BPA) in May 1983 when it and the Supply System alleged they could not finance continued work on the project. WNP-3 was about 75 percent complete at the time. PGE has a 10 percent share of the 1.2 million kw unit. As of December 1984, the Company had invested $236 million in WNP-3.

The Company, and the three other Northwest investor-owned utilities with shares in WNP-3, brought suit against BPA and the Supply System for breach of contract.

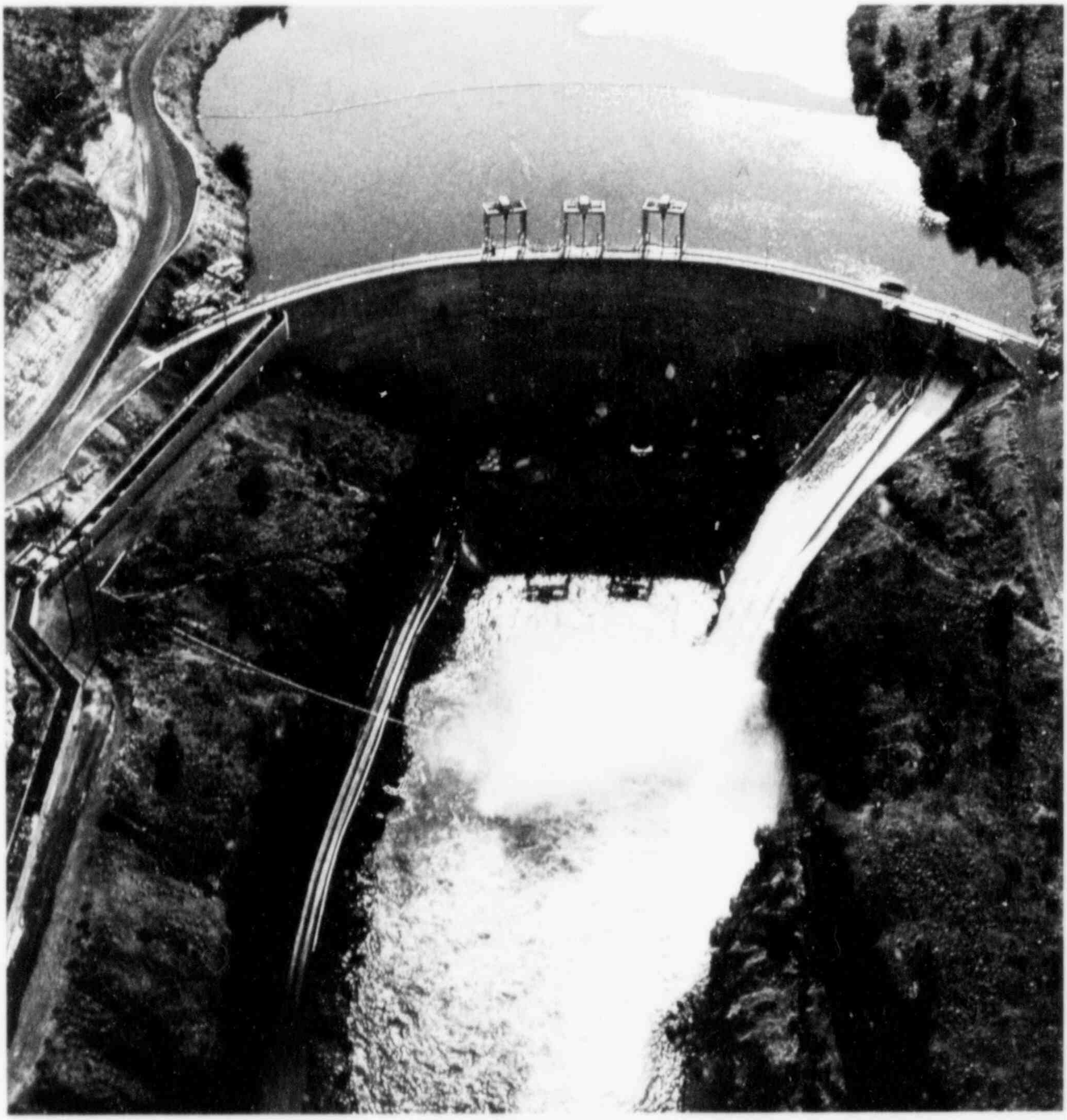
In November 1984, a U.S. District Court ruled in PGE's favor stating BPA and the Supply System breached contracts and could have financed construction through BPA's rates. PGE subsequently filed a claim for some $500 million in damages.

PGE, BPA, the Supply System and the other utilities reached agreement in January 1985 on the structure of a proposal that could settle the litigation surrounding WNP-3.

Under the proposal, PGE will receive about 53,000 kw of power from BPA beginning in 1987 in exchange for the Company's share of the plant. In turn, BPA will receive full authority to schedule continued work on the project. PGE hopes final agreement can be reached on the settlement in the spring of 1985. Any settlement will be subject to public reviews and regulatory approvals.

Energy Resources Sufficient

Although 1984 saw energy use increase dramatically in comparison with recent years, we continue to expect average demand to grow at about 1.5 percent a year for the next decade. Existing power plants and supply contracts, and the completion of Colstrip Unit 4, should be sufficient to meet customer needs into the late 1990s.



Abundant hydroelectric power from eight PGE projects, like Pelton Dam, help keep the Company's rates at two thirds the national average. PGE receives additional hydro power under long term contracts with five projects. Nuclear, coal, oil and natural gas fired plants round out PGE's diversified resource base.

NEW DIRECTIONS

Electric utilities today face competition unlike any experienced since the birth of the industry in the late 1800s.

Deregulation of the natural gas industry, the oil glut and new technologies to produce energy or use it more efficiently, all challenge an electric utility's historical market share and competitive position.

PGE recognizes the new realities of its business environment and is adapting and growing to meet the challenge.

Renewed efforts in marketing, new business development, an active role in Oregon's economic development and the enhancement of its financial strengths and human resources are the keys to the Company's approach.

Marketing Programs Increase

1984 saw PGE return to an active role in marketing electricity to its residential, commercial and industrial customers.

Through PGE's Good Cents program, home builders and buyers can achieve maximum energy efficiency and enjoy the benefits of clean, safe electricity.

Good Cents homes and apartments draw from 10 energy-saving measures to keep home heating requirements at one-half those achieved in other homes.

PGE supports Good Cents builders with a computer analysis to select the right energy efficient equipment and features. Company representatives follow up with inspections to ensure proper installation and final certification. Builders also receive advertising and sales support.

The program has been well received. Plans and work are underway for several large Good Cents apartment and condominium projects. Our 1985 goal is to have 8 percent of the new homes and condominiums built to meet these requirements.

"Repair Don't Replace" is the theme of another new marketing effort. Customers who have a problem with their electric water heater can simply call a toll-free PGE number for advice on how to fix it themselves or how to have the repairs done for them. In the last eight months of 1984 we had more than 2,500 customers call for assistance.

Flexibility Helps Business

Special attention is being paid to the Company's 50 largest commercial and industrial customers.

An excellent example is a new power supply contract for a large steel fabricating plant. By learning about its operation, PGE was able to develop a new rate schedule that allows the fabricator to operate more efficiently and become more competitive, while we retain its business.

Wholesale marketing of firm power and offering an ownership share in two power plants is another aggressive new direction for the Company.

PGE is offering to sell as much as 200,000 kilowatts capacity in its thermal power plants along with an equivalent share of the Pacific Northwest high-voltage Intertie with California. In addition, the Company is making available for sale an additional long-term, firm supply of as much as 100,000 kilowatts from its system.

When completed, these steps will better utilize our resources without affecting our ability to meet customer needs.

Oregon's Economy Grows

Economic development efforts were successful at home and abroad. Oregon now ranks third nationally in attracting high-technology companies. Most of this growth is taking place in PGE's service area.

Company participation in trade missions to Japan and China and Oregon's repeal of the unitary income tax on business were instrumental in the decisions of several high technology companies to build or expand in Oregon.

Locally, PGE is working to help its commercial-industrial customers become more competitive. Through its business retention and development program the Company serves as a liaison between business and government. The program identifies barriers to development then helps find ways to remove them.

As part of its economic development efforts, PGE is also studying the feasibility of establishing a World Trade Center in Portland. If developed, the center will support trade and relations among regional and international governmental agencies and businesses.

World Trade Centers are part of an international network providing consolidated banking, legal, research and travel services, and space for exhibits and trade fairs, to businesses and organizations. The centers serve as focal points and catalysts for an area's international trade.

As the power supply increased, PGE resumed marketing electricity in 1984 with the introduction of the Good Cents home and Hot Water programs. This home will benefit from the latest in energy-efficient construction techniques, electric heating and cooling systems, and appliances.

Business Development Expands

Electric utility operations will remain the core of PGE's business for years to come. But the Company recognizes it must look to other areas to sustain long term growth.

Providing businesses, industries and institutions with a way to cut operating costs through effective energy management is the role of PGE's first new subsidiaries—Western EnerTech and Western EnerTech Financial. They analyze energy management needs, then arrange for system design, equipment installation and financing.

Columbia-Willamette Development Co. is another new PGE subsidiary. Its purpose is to develop PGE's nonutility properties and look for other land development opportunities.

Synektron, a Portland area manufacturer of computer disk drive motors, and Montgomery Ventures II, a California-based venture capital firm, are two of PGE's additional investments.

Corporate Goals Established

Internally, all officers and many senior managers are working under a new incentive-based pay program. It is tied to the achievement of specific objectives for their areas and attainment of PGE's strategic directions.

Achievement of operating objectives through teamwork also is the purpose of a new corporatewide goals program. Objectives range from enhancing employee safety and health to meeting standards of excellence at power plants. All employees will receive financial awards if the designated objective levels are met.

In addition, PGE continues to emphasize employee training and development, and the cross training of employees in different areas. Ultimately the Company's success can only be attained through the work, experience and expertise of its employees.

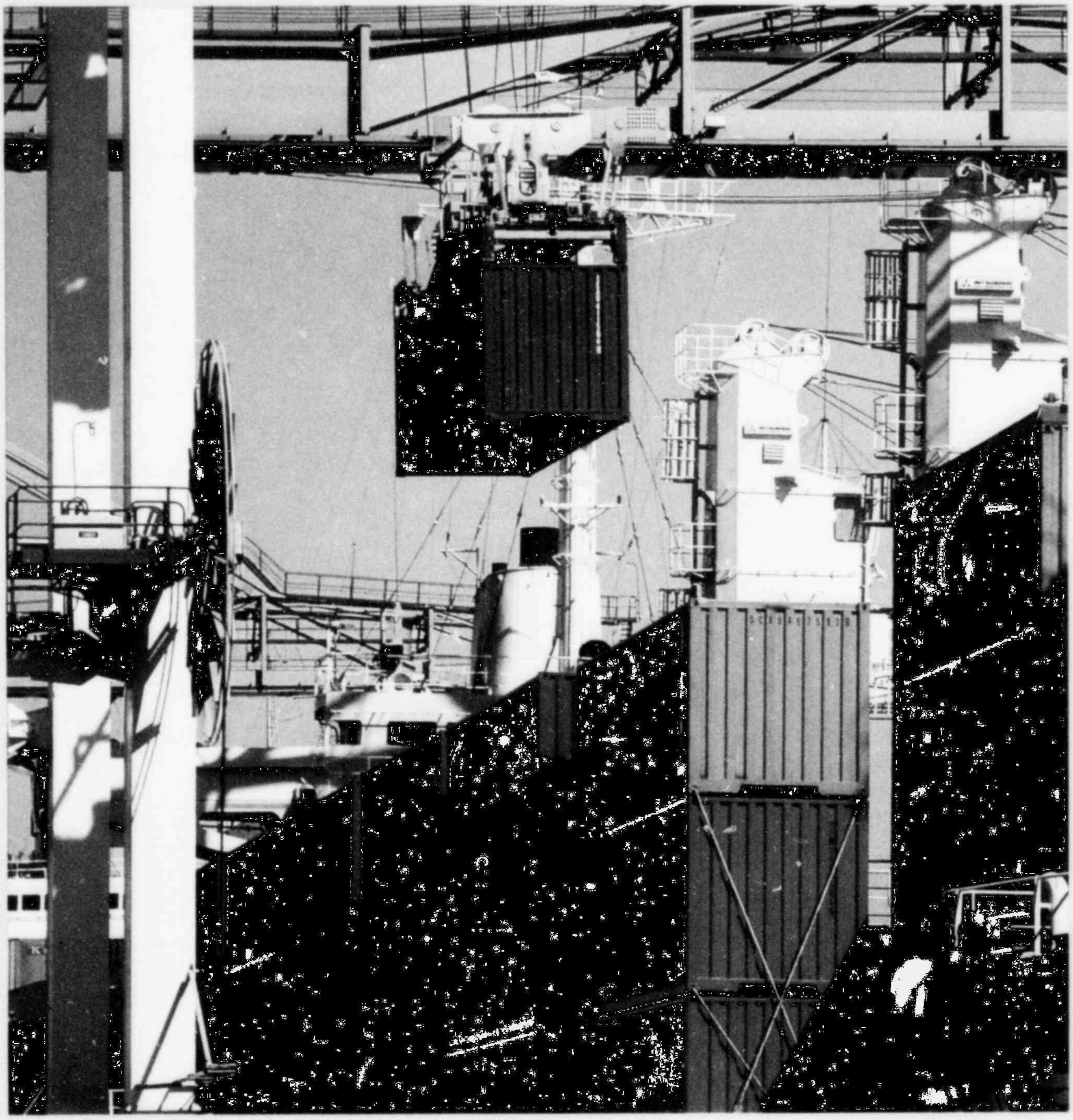
NEWSWEEK *says it like it is:*

Over the past two years, Oregon has become the hottest high-tech growth area in the nation. It has done so on its own terms, boasting the nation's toughest land-use and environmental laws—and only modest financial incentives. In the last eight months alone it has lured investments worth half a billion dollars and 10,000 jobs from a dozen major firms.

Says start-up attorney Steve Wynne. "People aren't so much driven as they are excited." The start-up infrastructure that has evolved is more like a support system. Office-supply firms lend equipment to budding companies, auditors and attorneys offer reduced fees, banks seldom require executives to sign personal notes. "If you want to go into business," says Wynne, "you can call on people who are in the forefront of the field and they'll help."

Oregon's "Silicon Forest" may be sprouting a new vision of high-tech culture.

—*excerpts from* Newsweek
February 25, 1985



As a freshwater gateway to the Pacific Rim, the Port of Portland bustles with cargo carried by ships from around the world. Some 1,400 ships load and discharge cargo at the Port a year.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

Results of Operations

Net income increased 39% in 1984, when compared with 1983, while earnings per share increased 50%. The 1984 improvement is primarily attributed to timely rate action and increased sales of electricity. The 1984 period includes a net charge to income of approximately $47 million as a result of an adjustment to the Company's investment in the Washington Public Power Supply System (Supply System) Unit 3. See Note 8, Investment in Supply System Unit 3. Also, 1984 includes a net gain of approximately $4 million from the sale of a portion of the Company's transmission and distribution properties to the Columbia River People's Utility District (CRPUD), and includes reduced income tax expense of approximately $42 million due to the accelerated amortization of certain unamortized investment tax credits.

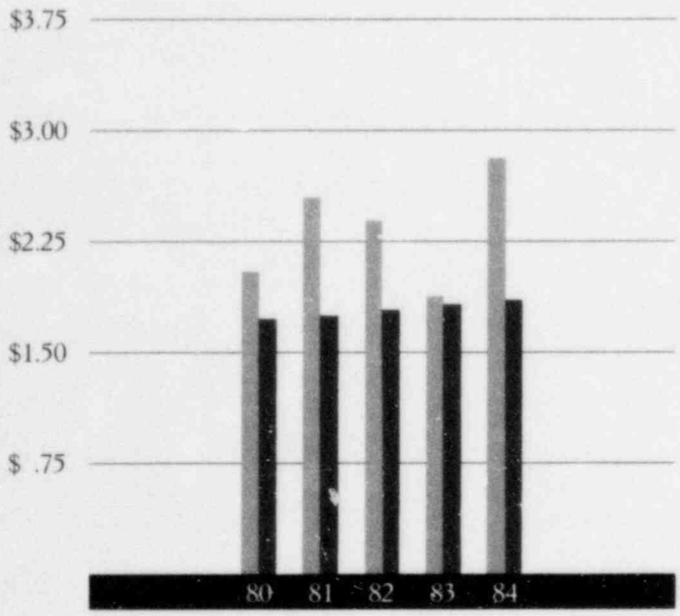
In 1983, net income and earnings per share decreased 8% and 21% compared to 1982. This was primarily due to an extraordinary loss of approximately $49 million ($1.14 per share) resulting from the termination of the Skagit/Hanford nuclear project (Skagit) and a decrease in sales of electricity to large industrial customers and other utilities. Also, in 1983, preferred dividend requirements increased about $8 million. The 1982 period included the write-off of the Company's investment in the Pebble Springs nuclear project of approximately $80 million ($1.96 per share) and an extraordinary gain of approximately $54 million ($1.32 per share) which resulted from debt/equity exchanges. See Note 3, Abandonment of Nuclear Projects and Note 4, Gain on Debt/Equity Exchanges.

Nuclear project abandonments and construction delays could affect the Company's future financial performance. The Company cannot at this time estimate what effect, if any, the uncertainties surrounding its remaining investment in Supply System Unit 3, or litigation related to investments in abandoned nuclear projects, will have on the financial condition of the Company. See Note 8, Investment in Supply System Unit 3 and Note 10, Litigation.

Operating Revenues

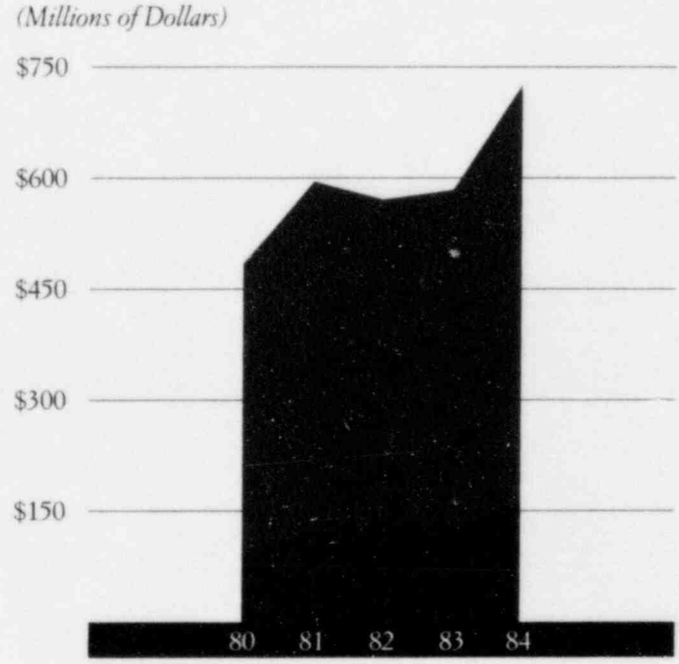
Rate Actions In February 1984, the Public Utility Commissioner of Oregon (Commissioner) granted the Company a $68 million annual rate increase to offset the Company's 20% share of costs of Colstrip Unit 3 (Colstrip 3). This coal-fired unit was placed in service on January 10, 1984. The Commissioner also granted a rate increase, effective May 1, 1984, for the recovery of a portion (approximately $36 million, net of income taxes) of the Company's investment in the abandoned Skagit project over a five-year period. In other actions, rate increases were granted to offset reduced ratepayer benefits resulting from changes in the provisions of the Regional Power Act and increased costs resulting from a Bonneville Power Administration (BPA) transmission rate increase and other increased operating expenses. As a result of the above rate actions, the average price per kilowatt hour sold to ultimate customers increased 20% as compared to 1983.

Sales of Energy Kilowatt hour sales of energy to ultimate customers increased 6% in 1984 over 1983 due to comparatively colder weather and improved economic conditions in the region.



Earnings Per Average Common Share & Dividends Declared Per Share

Earnings Per Share ■ Dividends Per Share



Operating Revenues & Net Income

■ Operating Revenues
■ Net Income

In addition, kilowatt hour sales of energy to other utilities increased 22% in 1984 over 1983 due to the availability of surplus energy and a favorable market for sales to California utilities.

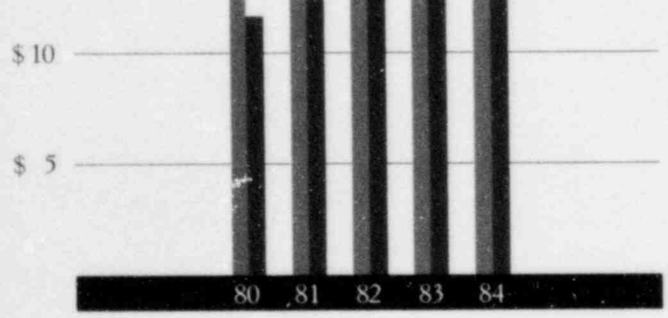
Regional Power Act Operating revenues and purchased power costs were reduced by approximately $93 million, $55 million, and $77 million in 1984, 1983 and 1982, respectively, as a direct result of the power exchange provisions of the Pacific Northwest Electric Power Planning and Conservation Act (Regional Power Act). The Regional Power Act allows the Company to exchange power with the BPA and pass the benefit of this lower-cost power to its residential and small farm customers. In September 1984, the Federal Energy Regulatory Commission approved BPA's changes to the methodology used to calculate benefits under the Regional Power Act. These changes substantially reduce the benefits received by these customers. Effective November 30, 1984, the Company was granted a $26 million rate increase and anticipates filing for another rate increase in mid-1985 to offset the reduced benefits. Although these rate increases should have no direct effect on earnings, they may have an adverse effect on the Company's competitive position and growth potential.

Operating Expenses

Production Expenses Production expenses increased 32% in 1984 over 1983 primarily due to Colstrip 3 becoming operational in January 1984 and to increased operation of the Trojan nuclear plant (Trojan) and Boardman coal plant (Boardman). During 1984, Trojan, Colstrip 3 and Boardman generated 23%, 5% and 4% of the Company's net system load requirements, compared with 21%, 0% and 3% in 1983. The abundance of surplus hydropower in the region enabled the Company to keep Trojan and Boardman off-line for an extended period of time during 1983, thereby sharply decreasing the Company's production expenses. The following is a summary of related statistics for the Company's principal generating plants. (dollar amounts in thousands):

	1984	1983	1982
Trojan—Nuclear:			
Production expense	**$42,017**	$38,379	$41,108
MWH's generated	**3,252,568**	2,783,703	3,265,985
Colstrip 3—Coal:			
Production expense	**$ 8,940**	—	—
MWH's generated	**716,604**	—	—
Boardman—Coal:			
Production expense	**$21,003**	$16,661	$18,640
MWH's generated	**620,384**	433,366	593,104

During 1984, Trojan was off-line from late April until October for its annual refueling and maintenance. This outage was longer than anticipated due to replacement of damaged control rod support pins and repairs and modifications to a coolant pump and certain backup safety systems. The Company plans to operate Trojan



Book Value & Market Value
(Per Common Share)

■ Book Value ■ Market Value

Sources of Electric Energy
(Total System)

■ PGE Hydro 19% ■ Firm Purchases 29%
■ Nuclear 20% ■ Non-Firm Purchases 23%
■ Coal 9%

through April 1985, the next scheduled annual refueling and maintenance outage. Colstrip 3 added 140 megawatts of capacity to the Company's resource base and has generated power since becoming operational. Boardman is currently in an economy shutdown due to the availability of lower-cost hydropower. Trojan, Colstrip 3 and Boardman, collectively, are expected to provide about 40% of the Company's 1985 net system load requirements.

Transmission and Distribution Expenses Transmission and distribution expenses increased 72% in 1984 over 1983 primarily due to increased transmission rates implemented by the BPA in March 1984 and Colstrip 3 transmission expenses.

Maintenance and Repairs The increase in maintenance and repair expenses in 1984 over 1983 was primarily due to the work performed at Trojan during the extended refueling and maintenance period.

Depreciation and Amortization Expense Depreciation and amortization expense increased 34% in 1984 over 1983 primarily due to Colstrip 3 being placed in service and the amortization of the Company's recoverable investment in Skagit.

Income Tax Expense Income tax expense was reduced approximately $42 million in 1984 and $26 million in 1983 as a result of the Commissioner authorizing the Company to accelerate the amortization of certain unamortized investment tax credits. See Note 1, Summary of Significant Accounting Policies.

Other Items

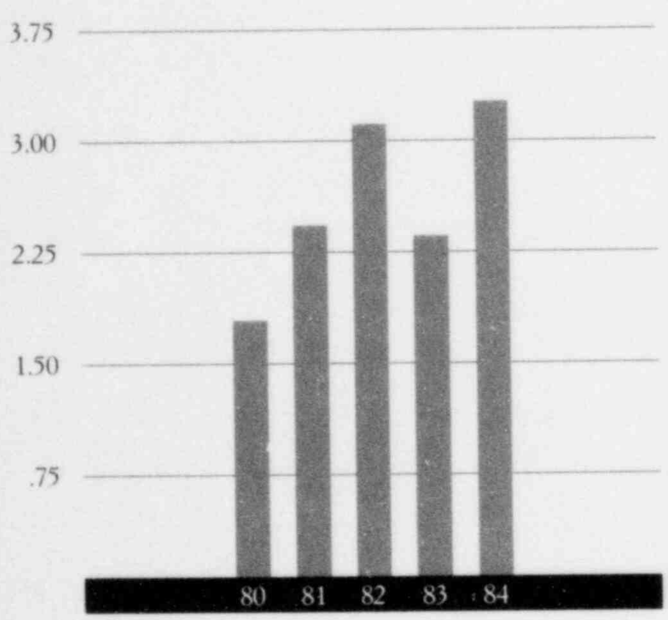
Allowance for Funds Used During Construction (AFDC) The decrease in AFDC in 1984 from 1983 was primarily due to Colstrip 3 being placed in service and the elimination of AFDC previously capitalized on Supply System Unit 3 during the construction delay.

Other—Net of Income Taxes The increase in expense in 1984 reflects a charge for preservation costs incurred on Supply System Unit 3 during the construction delay. In addition, the Company recorded a net gain of approximately $4 million from the sale of a small portion of its transmission and distribution system to the CRPUD.

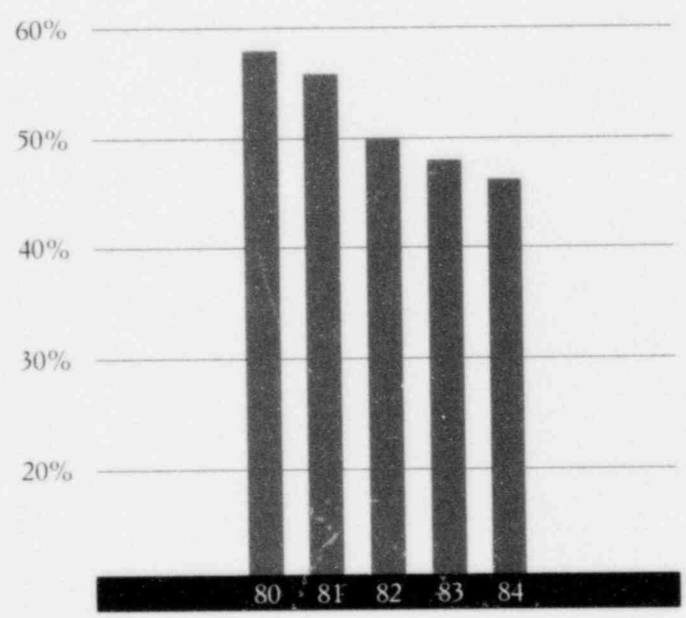
Inflation The Company is particularly sensitive to inflation because current ratemaking practices allow for the recovery through revenues of the original cost, instead of the replacement cost, of plant and equipment. For information on the effects of inflation, see Supplementary Information to Disclose the Effects of Changing Prices.

Capital Resources and Liquidity

The 1985 capital expenditure program is estimated at $150 million, including AFDC. The 1986-87 program is estimated in the range of $200 million to $250 million, including AFDC. Approximately 25% of these estimated expenditures are for generating plant facilities, 25% for transmission, distribution, and general facilities, and 50% for nuclear fuel and other expenditures. Cost estimates are based on the Company's present plans for joint ownership of certain future generating facilities and present construction schedules and are subject to further revision as a result of changes in such plans. The Company's estimates of capital expen-



Cash Flow Dividend Coverage Ratio
(Times)



Long-Term Debt as a Percentage of Capitalization

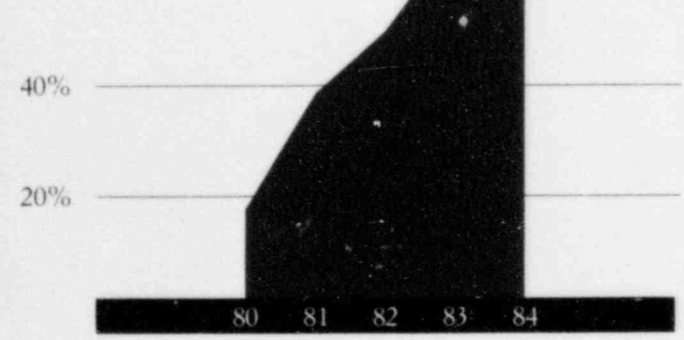
ditures include the completion of Colstrip Unit 4, currently scheduled for commercial operation in the spring of 1986, and reflect the construction delay of Supply System Unit 3. The Company currently has sufficient generating capacity and projects under construction to meet its projected customer demand until the late 1990s. The Company presently does not have plans to construct any additional major generating facility.

The Company expects its 1985 capital requirements to be met through internal fund generation. With the exception of its existing stock purchase plans, the Company does not anticipate selling any additional equity securities in 1985. The Company plans to sell fixed income securities to refund maturing obligations and if market conditions are favorable, may sell fixed income securities to reduce its cost of capital.

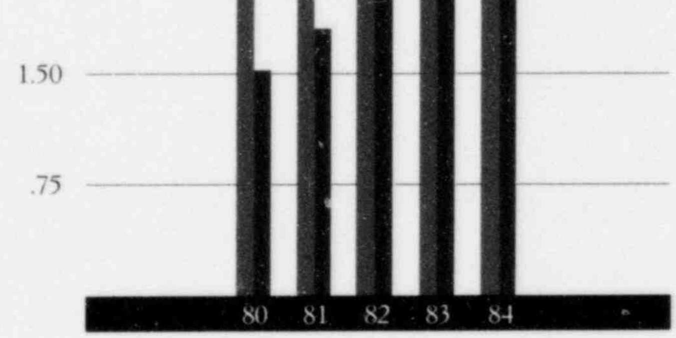
As the result of improved internal fund generation and a reduction in construction activity, the 1984 cash capital requirements were funded 100% internally as compared to 67% in 1983 and 50% in 1982. These conditions allowed the Company to limit its external financings during 1984. The Company entered into an arrangement with the City of Forsyth, Montana to issue $8.6 million of the City of Forsyth's Variable Rate Demand Pollution Control Revenue Bonds due August 1, 2014. This agreement is similar to one entered into in June 1983 for $89.2 million. In November 1984, the Company issued $75 million of first mortgage bonds, due in 1999. The proceeds from this financing were used to reduce the level of floating rate debt. In early 1985, the Trojan trust agreement was paid down. The Company presently plans no further borrowings thereunder and plans to terminate the agreement in late 1985. In addition, the Company entered into two $25 million interest rate exchange agreements whereby the Company pays a fixed interest rate and receives a variable interest rate based on the three-month London-Interbank offered rate. As a result, the level of the Company's floating rate debt as a percentage of total capitalization was reduced to 8%. The Company also issued 1.3 million shares of common stock under its existing stock purchase plans for net proceeds of $18 million.

The issuance of additional preferred stock and first mortgage bonds requires the Company to meet earnings coverage provisions set forth in the Articles of Incorporation and the Indenture securing its first mortgage bonds. Presently, the Company estimates that under the most restrictive of these provisions, at an assumed rate of 13%, it could issue approximately $260 million of additional preferred stock and approximately $490 million of additional first mortgage bonds. In early 1985, two major rating agencies upgraded the Company's credit rating for its first mortgage bonds and preferred stock. These improved credit ratings could help the Company obtain future financings at lower costs.

Cash flow from current operations is the Company's primary internal source of liquidity. At December 31, 1984, the Company had approximately $38 million of temporary cash investments to assist in meeting future cash requirements. External borrowings from banks are used as a normal part of day-to-day operations to meet interim cash needs. The Company has $195 million of short-term commitments and arrangements available from various domestic and foreign banks.



Internally Generated Funds as a Percentage of Capital Requirements



Pre-Tax Interest Coverage Ratios
(Times)

Interest Coverage (Includes AFDC)   Cash Interest Coverage (Excludes AFDC)

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Board of Directors and Stockholders of Portland General Electric Company:

We have examined the consolidated balance sheets and statements of capitalization of Portland General Electric Company (an Oregon corporation) and subsidiaries as of December 31, 1984 and 1983, and the related consolidated statements of income, retained earnings and changes in financial position for each of the three years in the period ended December 31, 1984. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As discussed in Notes 3 and 10, the Company terminated its participation in the Skagit/Hanford nuclear project (Skagit) during 1983. The Public Utility Commissioner of Oregon (Commissioner) allowed the Company to recover in rates \$36,263,000 (net of related income tax reductions) over a five year period. The Commissioner disallowed the remaining net investment of \$48,598,000, which the Company recorded as an extraordinary loss in 1983. In a suit filed in February 1984, the Company challenged the Commissioner's determination that a portion of its investment is not recoverable. A suit has also been filed to block the Company's recovery of the portion allowed by the Commissioner. While management believes its charge to income for the disallowed portion is conservative for financial reporting purposes, it is not possible to predict the outcome of the litigation surrounding the Commissioner's action.

As discussed in Notes 8 and 10, construction on the Washington Public Power Supply System Unit 3, in which the Company has a 10% interest, has been suspended. This suspension and related litigation create significant uncertainties regarding the ultimate cost of Unit 3 and whether it will be completed and placed in service. If Unit 3 is terminated, recovery of the Company's investment (\$236,430,000 at December 31, 1984) and any termination cost is subject to the Company receiving adequate rate treatment. The Company would attempt to recover its entire investment and any termination cost in rates. However, as discussed in the preceding paragraph and in Note 10, the Commissioner has disallowed recovery of costs incurred subsequent to passage of Ballot Measure 9 in the case of Skagit, an action which is being challenged in the courts. Substantially all of the company's investment in Unit 3 was incurred subsequent to passage of Ballot Measure 9. As a result of the above uncertainties, the recoverability of the Company's investment in Unit 3 presently cannot be determined.

In our opinion, subject to the effect on the 1984, 1983 and 1982 consolidated financial statements (Skagit) and the 1984 and 1983 consolidated financial statements (Unit 3) of such adjustments, if any, as might have been required had the outcome of the uncertainties referred to in the second and third paragraphs been known, the financial statements referred to in the first paragraph present fairly the financial position of Portland General Electric Company and subsidiaries as of December 31, 1984 and 1983, and the results of their operations and the changes in their financial position for each of the three years in the period ended December 31, 1984, in conformity with generally accepted accounting principles applied on a consistent basis.

Portland, Oregon,
February 8, 1985

ARTHUR ANDERSEN & CO.

CONSOLIDATED STATEMENTS OF INCOME

For the Years Ended December 31 (Thousands of Dollars)	1984	1983	1982
Operating Revenues	**$722,068**	$586,404	$572,193
Operating Expenses			
Purchased power	**22,671**	31,375	12,225
Production	**96,057**	73,032	81,094
Transmission and distribution	**32,509**	18,876	14,883
Administrative and other	**89,755**	84,469	65,335
Maintenance and repairs	**34,039**	24,111	27,514
Depreciation and amortization (Note 1)	**80,355**	59,755	57,694
Taxes other than income taxes	**41,308**	34,190	31,644
Income taxes (Notes 1 and 2)	**54,057**	51,131	77,707
	450,751	376,939	368,096
Operating Income	**271,317**	209,465	204,097
Other Income and Deductions (Note 8)			
Allowance for equity funds used during construction	**3,389**	39,579	35,235
Other—net of income taxes	**(8,389)**	(646)	105
	(5,000)	38,933	35,340
Interest Charges			
Interest on long-term debt and other	**107,437**	112,674	115,137
Interest on short-term borrowings	**3,005**	2,396	5,806
Allowance for borrowed funds used during construction (Note 8)	**(2,489)**	(29,414)	(31,668)
	107,953	85,656	89,275
Income Before Extraordinary Items	**158,364**	162,742	150,162
Extraordinary Items			
Unrecoverable costs of abandoned nuclear projects, less income taxes of $9,756 and $47,079 (Note 3)	—	(48,598)	(79,773)
Gain on debt/equity exchanges (Note 4)	—	—	53,617
Net Income	**158,364**	114,144	124,006
Preferred Dividend Requirement	**34,472**	34,810	26,956
Income Available for Common Stock	**$123,892**	$ 79,334	$ 97,050
Common Stock			
Average shares outstanding	**44,221,525**	42,512,999	40,737,617
Earnings per average share			
Before extraordinary items	**$2.80**	$3.01	$3.02
Extraordinary items			
Unrecoverable costs of abandoned nuclear projects, less income taxes (Note 3)	—	(1.14)	(1.96)
Gain on debt/equity exchanges (Note 4)	—	—	1.32
	$2.80	$1.87	$2.38
Dividends declared per share	**$1.81**	$1.77	$1.74

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

For the Years Ended December 31 (Thousands of Dollars)	1984	1983	1982
Balance at Beginning of Year	**$147,248**	$143,223	$117,124
Net Income	**158,364**	114,144	124,006
	305,612	257,367	241,130
Dividends Declared			
Common stock	**80,095**	75,309	70,951
Preferred stock	**34,472**	34,810	26,956
	114,567	110,119	97,907
Balance at End of Year	**$191,045**	$147,248	$143,223

The accompanying notes are an integral part of these statements.

Portland General Electric Company and Subsidiaries

CONSOLIDATED BALANCE SHEETS

At December 31 (Thousands of Dollars)	1984	1983
ASSETS		
Electric Utility Plant—Original Cost		
Plant in service	$2,052,873	$1,794,690
Accumulated depreciation	(461,275)	(397,304)
Accumulated deferred income taxes	(64,783)	(47,229)
Accumulated deferred investment tax credits (Note 1)	(2,420)	—
	1,524,395	1,350,157
Construction work in progress (Note 8)	371,910	608,870
Nuclear fuel, less amortization of $97,460 and $83,071	66,632	59,600
	1,962,937	2,018,627
Other Property and Investments		
Conservation programs	35,553	37,250
Other	22,047	20,123
	57,600	57,373
Current Assets		
Cash and temporary cash investments (Note 1)	57,047	3,394
Receivables		
Customer accounts—net	65,973	47,398
Other accounts and notes	24,258	17,139
Estimated unbilled revenues	46,916	38,687
Fuel stock—average cost	18,937	22,054
Materials and supplies—average cost	24,934	21,848
Prepayments and property taxes applicable to subsequent periods	25,357	24,215
	263,422	174,735
Deferred Charges		
Abandoned nuclear project, less amortization of $5,313 in 1984 (Notes 1 and 3)	30,950	36,263
Income taxes	15,823	13,511
Other	43,111	47,610
	89,884	97,384
	$2,373,843	$2,348,119
CAPITALIZATION AND LIABILITIES		
Capitalization (see accompanying statements)		
Common stock equity	$ 851,555	$ 789,027
Cumulative preferred stock		
Subject to mandatory redemption	32,093	35,393
Not subject to mandatory redemption	230,000	230,000
Long-term debt	948,568	961,398
	2,062,216	2,015,818
Nuclear Fuel Storage Liability	42,505	36,913
Current Liabilities		
Long-term debt due within one year	46,160	88,605
Current sinking fund—preferred stock	2,611	2,287
Short-term borrowings	11,500	15,000
Accounts payable and other accruals	107,080	86,702
Accrued interest	24,590	26,359
Dividends payable	28,939	27,943
Accrued taxes	15,107	15,874
Deferred income taxes	17,025	16,505
	253,012	279,275
Other		
Deferred tax benefits	8,988	9,442
Miscellaneous	7,122	6,671
	16,110	16,113
	$2,373,843	$2,348,119

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF CAPITALIZATION

At December 31 (Thousands of Dollars)	1984		1983	
Common Stock Equity (Note 5)				
Common stock, $3.75 par value per share, 100,000,000 shares authorized 44,703,853 and 43,401,572 shares outstanding	$ 167,640		$ 162,756	
Other paid-in capital	502,477		488,687	
Capital stock expense	(9,607)		(9,664)	
Retained earnings	191,045		147,248	
	851,555	41.3%	789,027	39.1%
Cumulative Preferred Stock (Note 5)				
Subject to mandatory redemption				
$100 par value per share, 2,500,000 shares authorized				
11.50% Series, 113,037 and 124,797 shares outstanding	11,304		12,480	
Current sinking fund	(811)		(487)	
8.875% Series, 234,000 and 252,000 shares outstanding	23,400		25,200	
Current sinking fund	(1,800)		(1,800)	
	32,093	1.6	35,393	1.8
Not subject to mandatory redemption				
9.76% Series, 100,000 shares outstanding	10,000		10,000	
7.95% Series, 300,000 shares outstanding	30,000		30,000	
7.88% Series, 200,000 shares outstanding	20,000		20,000	
8.20% Series, 200,000 shares outstanding	20,000		20,000	
$25 par value per share, 6,000,000 shares authorized				
$2.60 Series, 1,000,000 shares outstanding	25,000		25,000	
$4.40 Series, 3,000,000 shares outstanding	75,000		75,000	
$4.32 Series, 2,000,000 shares outstanding	50,000		50,000	
	230,000	11.1	230,000	11.4
Long-Term Debt (Note 7)				
First mortgage bonds				
Maturing 1984 through 1987				
3⅜% Series due November 1, 1984	—		6,426	
9⅞% Series due June 1, 1985	27,000		27,000	
4¼% Series due September 1, 1986	8,960		9,280	
4⅞% Series due June 1, 1987	4,436		4,636	
Maturing 1990 through 1995 — 4⅝%-5¼%	50,626		51,889	
Maturing 1996 through 2000 — 5⅞%-13¼%	242,678		173,245	
Maturing 2001 through 2005 — 7¼%-11⅝%	133,399		133,399	
Maturing 2006 through 2012 — 8¾%-13⅞%	232,078		232,078	
Pollution control bonds				
Port of Morrow, Oregon, 8½% to 12%, serially due 1984 to 2011	25,250		25,450	
City of Forsyth, Montana, variable rate, due June 1, 2013, and August 1, 2014	97,800		89,200	
Amount held by trustee	(10,764)		(18,158)	
10% notes due March 1, 1984	—		50,000	
16 5/16% bank loan due November 13, 1986	25,000		25,000	
14¾% notes due May 1, 1987	46,642		46,642	
Trojan trust agreement	11,610		95,515	
Bank credit agreement	100,000		100,000	
Other	13		(1,599)	
	994,728		1,050,003	
Long-term debt due within one year	(46,160)		(88,605)	
	948,568	46.0	961,398	47.7
Total capitalization	$2,062,216	100.0%	$2,015,818	100.0%

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

For the Years Ended December 31 (Thousands of Dollars)	**1984**	1983	1982
Source of Funds			
Funds provided internally			
Income before extraordinary items	**$158,364**	$162,742	$150,162
Non-cash charges (credits) to income			
Depreciation and amortization	**95,306**	74,549	72,381
Deferred income taxes—net	**13,691**	38,881	27,215
Allowance for equity funds used during construction	**(3,389)**	(39,579)	(35,235)
Adjustment to Supply System Unit 3—net	**42,324**	—	—
Nuclear fuel storage	**5,592**	5,964	11,102
Other—net	**5,108**	3,041	6,879
Funds from current operations	**316,996**	245,598	232,504
Funds from extraordinary items			
Unrecoverable costs of abandoned nuclear projects	**—**	(48,598)	(79,773)
Gain on debt/equity exchanges	**—**	—	53,617
Non-cash charge to income			
Unrecoverable costs of abandoned nuclear projects	**—**	58,354	121,003
Funds from extraordinary items	**—**	9,756	94,847
Dividends declared	**(114,567)**	(110,119)	(97,907)
Funds provided internally	**202,429**	145,235	229,444
Funds from external financing			
Long-term debt	**141,120**	91,763	181,529
Common stock	**18,706**	29,410	18,412
Preferred stock	**—**	—	137,500
Short-term borrowings—net	**(3,500)**	10,000	(13,750)
Retirement of long-term debt and preferred stock	**(200,509)**	(86,597)	(279,419)
Funds from external financing	**(44,183)**	44,576	44,272
Sale of properties	**5,615**	—	—
	$163,861	$189,811	$273,716
Application of Funds			
Gross utility construction	**$128,957**	$191,131	$305,768
Allowance for equity funds used during construction	**(3,389)**	(39,579)	(35,235)
Adjustment to Supply System Unit 3—AFDC equity	**(26,597)**	—	—
	98,971	151,552	270,533
Miscellaneous—net	**(4,439)**	9,548	7,057
Increase (decrease) in working capital excluding current maturities, sinking funds and short-term borrowings			
Cash and temporary cash investments	**53,653**	2,087	119
Receivables	**25,694**	(1,259)	891
Estimated unbilled revenues	**8,229**	1,845	4,760
Inventories	**(31)**	(5,431)	11,743
Accounts payable and accruals	**(19,358)**	21,983	(18,220)
Other—net	**1,142**	9,486	(3,167)
	$163,861	$189,811	$273,716

The accompanying notes are an integral part of these statements.

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

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

Consolidation Principles—The financial statements include the accounts of the Company and certain of its wholly owned subsidiaries. Intercompany balances and transactions have been eliminated. The Company's investments in its unconsolidated subsidiaries are accounted for under the equity method.

Revenues—The Company accrues estimated unbilled revenues for services provided to month-end.

Purchased Power—The Company credits purchased power costs for the net amount of benefits received through a power purchase and sale contract with the Bonneville Power Administration (BPA). Reductions in purchased power costs that result from this exchange are passed directly to the Company's residential and small farm customers in the form of lower rates.

Allowance for Funds Used During Construction (AFDC)—AFDC represents the pretax cost of borrowed funds used for construction purposes and a reasonable rate for equity funds. AFDC is capitalized as part of the cost of utility plant and is credited to income but does not represent current cash earnings. The maximum AFDC rates used are determined by a formula established by the Federal Energy Regulatory Commission. The maximum AFDC rates were 12.24%, 13.20%, and 13.82% for the years 1984, 1983, and 1982.

Depreciation—Depreciation is computed on the straight-line method based upon the estimated average service lives of the various classes of plant in service. Depreciation expense as a percent of the related average depreciable plant in service approximated 3.6% in 1984, and 3.4% in 1983 and 1982.

Depreciation of the Trojan nuclear plant (Trojan) includes provisions for decommissioning costs. These costs are estimated to be $117,000,000. The sinking fund method is used to determine the current decommissioning provision that is included in rates charged to customers.

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

Nuclear Fuel—Amortization of the cost of nuclear fuel is based on the quantity of heat produced for the generation of electric energy. Under the Nuclear Waste Disposal Act of 1982, the federal government is to provide a repository for spent nuclear fuel by 1998 for which the Company will pay a fee. Disposal costs, based on energy generated after April 6, 1983, are being paid quarterly. In addition, the Company has recorded a liability for disposal costs prior to the above date. The Public Utility Commissioner of Oregon (Commissioner) has allowed increased revenues to provide for the estimated cost of permanent disposal.

Retirement Benefits—The Company has a noncontributory pension plan covering substantially all of its employees. The total pension expense for 1984, 1983, and 1982 was $6,685,000, $6,106,000, and $5,850,000, including amortization of prior service costs over not more than 30 years. The Company makes annual contributions to the plan equal to the amounts accrued for pension expense. A comparison of the actuarial present value of accumulated plan benefits, using an assumed interest rate of 9%, and net assets available for benefits is presented below.

	January 1 1984	January 1 1983
	(Thousands of Dollars)	
Actuarial Present Value		
Vested	**$50,276**	$45,578
Nonvested	**3,601**	2,806
	$53,877	$48,384
Net Assets	**$82,825**	$67,462

The present value of accumulated plan benefits and net assets available for benefits has not changed materially as of December 31, 1984.

In addition to providing pension benefits, the Company provides certain health care and life insurance benefits for retired employees. Company employees become eligible for these benefits if they reach normal retirement age while working for the Company. These benefits are provided through the operation of a qualified plan under the Internal Revenue Code. The Company records expenses equal to its contributions to the plan, which totaled $1,520,000 in 1984.

Power Cost Adjustment Tariff (PCA)—The PCA, which is adjusted quarterly by the Commissioner, permits 80% recovery of variable power costs in excess of those used for setting existing general tariffs. These power costs include those of Company-owned generation and purchased power. The PCA also provides for refunds of 80% of underruns in power costs from those used in setting existing general tariffs. Allowed costs are collected or refunded through an adjustment to customers' bills and costs greater or less than the total monthly adjustment are deferred.

Income Taxes—Deferred income taxes are provided for timing differences between financial and income tax reporting to the extent permitted by the Commissioner for ratemaking purposes. To comply with the provisions of the 1981 Economic Recovery Tax Act (ERTA), the Company is providing deferred income taxes on timing differences associated with property depreciated under the Accelerated Cost Recovery System of ERTA. For property placed in service prior to ERTA, deferred taxes are not provided for a portion of accelerated depreciation. This has the effect of passing some income tax reductions on to the Company's ratepayers. At December 31, 1984, the cumulative net amount of all timing differences for which deferred taxes have not been recorded was approximately $500,000,000. The tax effect of this amount (approximately $250,000,000) represents future income tax increases, which the Company anticipates to recover through rates. Deferred income taxes associated with property are reflected as a reduction to electric utility plant. Portions of the deferred income taxes are classified as current to the extent the related assets are current. The net proceeds from the sale of tax benefits under the provisions of ERTA are deferred and are being amortized to income over the estimated lives of the related properties.

Tax reductions resulting from investment tax credits are deferred and amortized to income over periods not to exceed 25 years, the approximate lives of the related properties. Deferred investment tax credits are reflected as a reduction to electric utility plant. The Company estimates it has approximately $55,000,000 of investment tax credit carryforwards available for application against any future federal income tax payments.

The Company received approval from the Commissioner to amortize to income certain unamortized investment tax credits over a 5-year period. Such credits were previously being amortized to income over a 30-year period. The effect of this action was to reduce income tax expense by approximately $42,000,000 in 1984 and $26,000,000 in 1983.

Cash and Temporary Cash Investments—The December 31, 1984 balance includes $18,150,000 deposited in an escrow account for payment of rent obligations.

Abandoned Nuclear Project—The net amount in abandoned nuclear project represents the recoverable portion of the Company's investment in the Skagit/Hanford nuclear project (Skagit). In May 1984, the Company began amortizing, on a straight-line basis, its deferred investment over a five-year period. The unamortized balance is excluded from the Company's rate base.

Note 2. Income Tax Expense

The following table shows the detail of taxes on income and the items used in computing the differences between the statutory federal income tax rate and the Company's effective tax rate.

	Years Ended December 31		
	1984	1983	1982
	(Thousands of Dollars)		
Income Tax Expense			
Currently payable (receivable)	**$16,091**	$ 1,108	$ (652)
Deferred income taxes			
Abandoned nuclear project	**(2,238)**	31,773	—
Adjustment to Supply System Unit 3	**(10,580)**	—	—
Capitalized interest	**368**	12,820	19,541
Accelerated depreciation	**18,023**	12,361	8,480
Property taxes	**1,006**	2,369	4,892
Unbilled revenue	**519**	(24)	3,365
Nuclear fuel storage	**(3,461)**	7,102	(6,121)
Rent accrual	**(4,918)**	(1,449)	(762)
Capitalized payroll taxes and other employee benefits	**1,437**	1,773	2,950
Other	**5,837**	2,091	(2,675)
Investment tax credit adjustments	**22,198**	(29,959)	910
	$44,282	$39,965	$29,928
Utility	**$54,057**	$51,131	$77,707
Nonutility	**(9,775)**	(1,410)	(700)
Extraordinary Items	**—**	(9,756)	(47,079)
	$44,282	$39,965	$29,928
Effective Tax Rate			
Computed tax based on statutory federal income tax rates applied to income before income taxes	**$93,217**	$70,890	$70,810
Less reduction resulting from			
Accelerated depreciation	**1,478**	4,217	5,881
Allowance for equity funds used during construction	**1,559**	18,205	16,155
State and local taxes	**(289)**	(5,175)	(1,955)
Investment tax credits	**49,051**	29,959	8,360
Abandoned nuclear projects—AFDC equity	**—**	(17,894)	(14,982)
Tax-free debt/equity exchanges	**—**	—	24,663
Other	**(2,864)**	1,613	2,760
	$44,282	$39,965	$29,928
Effective tax rate	**21.9%**	25.9%	19.4%

Note 3. Abandonment of Nuclear Projects

Skagit/Hanford

In 1983, Puget Sound Power & Light Company terminated Skagit in which the Company had a 30% interest. Uncertainties related to construction costs, future energy demands, and the regulatory and political environment were cited as reasons for termination. The Company was granted a rate increase to recover a portion ($36,263,000, net of related income tax reductions of $31,773,000) of its investment in Skagit over a five-year period. The write-off of the unrecoverable portion resulted in an extraordinary loss of $48,598,000, net of related income tax reductions of $9,756,000, or $1.14 per share. See Note 10, Litigation.

Pebble Springs

During 1982, the Company abandoned the Pebble Springs nuclear project (Pebble Springs). The Company was sponsor of and had a 47.1% interest in Pebble Springs. The decision to abandon the project was based on licensing difficulties, the enactment of restrictive legislation, and in response to specific orders of the Commissioner. The Company's write-off of its entire investment in Pebble Springs, including termination and cancellation charges, resulted in an extraordinary loss of $79,773,000, net of related income tax reductions of $47,079,000, or $1.96 per share. See Note 10, Litigation.

Note 4. Gain on Debt/Equity Exchanges

During 1982, the Company issued 5,000,000 shares of $25 par value, cumulative preferred stock at $27.50 per share. The Company entered into agreements to reacquire $111,212,000 principal amount of the Company's first mortgage bonds and to discharge $46,735,000 principal amount of pollution control financing obligations in exchange for 3,877,836 shares of such cumulative preferred stock. These transactions were recorded in accordance with Financial Accounting Standards Board Statement No. 4 and were approved by the Commissioner. Tax-free gains totaling $53,617,000, or $1.32 per share were recorded as extraordinary items. See Note 10, Litigation.

Note 5. Common and Preferred Stock

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

	Common Stock		Cumulative Preferred Stock: Subject to Mandatory Redemption		Cumulative Preferred Stock: Not Subject to Mandatory Redemption		
	Number of Shares	$3.75 Par Value	Number of Shares	$100 Par Value	Number of Shares	$25 Par Value	Other Paid-in Capital
Outstanding							
December 31, 1981	39,930,291	$149,739	419,934	$41,993	1,000,000	$ 25,000	$441,277
Sales of stock	1,417,360	5,314	—	—	5,000,000	125,000	25,598
Redemption of stock	—	—	(15,177)	(1,517)	—	—	88
December 31, 1982	41,347,651	155,053	404,757	40,476	6,000,000	150,000	466,963
Sales of stock	2,053,921	7,703	—	—	—	—	21,708
Redemption of stock	—	—	(27,960)	(2,796)	—	—	16
December 31, 1983	43,401,572	162,756	376,797	37,680	6,000,000	150,000	488,687
Sales of stock	1,302,281	4,884	—	—	—	—	13,822
Redemption of stock	—	—	(29,760)	(2,976)	—	—	(32)
December 31, 1984	44,703,853	$167,640	347,037	$34,704	6,000,000	$150,000	$502,477

Common Stock

At December 31, 1984, the Company had reserved 2,181,731, 67,700, and 1,500,000 authorized but unissued shares of common stock for issuance under its common stock investment plan, employee stock purchase plan, and stock ownership program.

Cumulative Preferred Stock Subject to Mandatory Redemption

Mandatory sinking fund requirements on the 11.50% Series and 8.875% Series preferred stock are $3,300,000 per year through 1992. The Company is required to redeem annually the following number of shares of each Series at $100 per share: 11.50% Series—15,000 shares; 8.875% Series—18,000 shares. At its option, the Company may redeem, through the sinking fund, additional shares each year. The sinking fund for the 11.50% Series may be satisfied in whole or in part by purchasing shares in the open market. No dividends may be paid on common stock or any class of stock over which the preferred stock has priority unless all amounts required to be paid for dividends and sinking fund payments have been paid or set aside.

Cumulative preferred stock subject to mandatory redemption is redeemable at the option of the Company at the following prices: 11.50% Series at $104 per share to January 15, 1990; 8.875% Series at $106 per share to April 30, 1985. Each Series is redeemable at reduced amounts after such respective dates.

No Par Cumulative Preferred Stock

The Company has 30,000,000 shares of no par, cumulative preferred stock authorized. No shares have been issued.

Note 6. Short-Term Borrowings

At December 31, 1984 the Company had $145,000,000 in bank credit commitments consisting of a $100,000,000 domestic revolving credit agreement, and a $45,000,000 revolving credit agreement with a group of foreign banks. In addition, the Company has arrangements to borrow up to $50,000,000 from four local banks. Borrowings are available at a variety of options based on certificate of deposit rate, London Interbank-offered rate, prime commercial rate, or other rates that are generally below the prime commercial rate. Most of the Company's short-term borrowings in 1984 were at rates below the prime commercial rate. An option in the $100,000,000 credit agreement provides for a two-year extension of the 1985 expiration date. The bank credit agreements currently require commitment fees ranging from ¼ to ⅜ of one percent, but they do not require compensating cash balances.

Short-term borrowings and related interest rates were as follows (dollar amounts in thousands):

	December 31		
	1984	1983	1982
As of the end of the period:			
Aggregate short-term debt outstanding	**$ 11,500**	$ 15,000	$ 5,000
Weighted average interest rate on short-term debt outstanding	**8.9%**	10.3%	9.8%
Unused commitments	**$145,000**	$170,000	$145,000
For the year ended:			
Average daily amounts of short-term debt outstanding	**$ 26,647**	$ 22,811	$ 41,226
Weighted daily average interest rate	**11.1%**	10.2%	13.9%
Maximum amount of short-term debt outstanding during the period	**$ 63,000**	$ 52,500	$ 94,200

Interest rates exclude the effect of commitment fees.

Note 7. Long-Term Debt

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

Nuclear fuel for Trojan has been financed under a $100,000,000 agreement with a trust. In addition, the trust can provide funds to the Company on its promissory note issued to the trust. The fuel notes are repaid as the fuel is consumed. At December 31, 1984, the weighted average interest rate on the outstanding notes was 9.1%. The Company presently plans no further borrowings thereunder and plans to terminate the agreement in late 1985. The notes outstanding are included in the long-term debt maturing within one year.

The Company has a bank credit agreement for a maximum $100,000,000 of long-term financing. Under the agreement, the banks provide support for commercial paper sales or make loans directly to the Company. The agreement, which expires on August 31, 1988, can be extended annually for an additional year with the consent of all the parties thereto. At December 31, 1984, borrowings are represented by commercial paper sales at a weighted average interest rate of 8.9%.

The Company entered into arrangements with the City of Forsyth, Montana during 1983 and 1984 to issue a total of $97,800,000 of City of Forsyth variable rate pollution control revenue bonds. Interest is presently computed on a variable rate basis using an interest index based on selected similar tax-exempt securities. Proceeds were used to finance pollution control facilities for the Colstrip project.

The following principal amounts of long-term debt become due for redemption through sinking funds and maturities during the years 1985 through 1989.

	Long-Term Debt	
	Sinking Funds	Maturities
	(Thousands of Dollars)	
1985	$10,551	$ 38,810
1986	11,813	33,840
1987	10,281	50,878
1988	11,031	100,200
1989	11,031	200

The sinking funds include $3,201,000 in 1985, $3,951,000 in both 1986 and 1987 and $4,701,000 in both 1988 and 1989 which, in accordance with the terms of the Indenture, the Company anticipates satisfying by pledging available additions equal to 166⅔% of the sinking fund requirements.

Note 8. Investment In Supply System Unit 3

Through December 31, 1984, the Company had invested approximately $305 million for its 10% ownership interest in the Washington Public Power Supply System (Supply System) Unit 3 nuclear project. Construction work, approximately 75% complete, was suspended in May 1983 because of the Supply System's alleged inability to issue bonds to pay for its 70% portion of the project. The suspension was anticipated to be for a period of two years. A further delay was proposed in November 1984, which would extend the suspension period to late 1987. Numerous lawsuits and related negotiations, initiated by the Company and others, have to date been unsuccessful in causing the resumption of construction. However, in January 1985, the Company and the other three investor-owned utilities in the project agreed to a proposed settlement framework with BPA. A final settlement, if adopted, would resolve the litigation relating to the suspension of construction and

provide the Company a supply of energy from BPA in exchange for the Company's share of any future output from Unit 3. See Note 10, Litigation. The Company opposed the suspension of construction on Unit 3 citing increased costs and the risk of termination as reasons therefor.

Because of the extended delay and the resulting likelihood of a significant increase in the project's ultimate cost, the Company has determined that its costs incurred during the suspension period should not be capitalized. Therefore, beginning January 1, 1985, the Company will cease capitalizing allowance for funds used during construction (AFDC) and expense preservation costs related to Unit 3. Similarly, costs, primarily AFDC, which were capitalized subsequent to the May 1983 suspension date have been charged to income resulting in a $69 million reduction of the Company's investment in Unit 3 during December 1984. The income effects of such action were a reduction of AFDC of approximately $47 million ($20 million borrowed; $27 million equity) combined with an increase in other deductions of approximately $22 million which generated related income tax reductions of approximately $22 million. The Company's remaining investment in Unit 3 at December 31, 1984 totaled $236 million, including $57 million of AFDC.

Because of the delay in construction and the related litigation discussed herein, management cannot presently determine the ultimate cost of Unit 3 and if or when it will be completed. If the project were ultimately terminated, the Company would attempt to recover its entire investment in rates. However, Oregon law prohibits utilities from including in rate base the cost of new plants until placed in service. In a prior regulatory action, costs incurred subsequent to the passage of this law were disallowed. The interpretation of the law is currently being addressed in the courts. See Note 10, Litigation. Because a substantial portion of the Company's costs in Unit 3 were incurred subsequent to the passage of the law, management cannot presently determine what amount, if any, of its investment would be recoverable.

Note 9. Commitments and Contingencies

Construction and Other

Purchase commitments outstanding, relating principally to construction, totaled approximately $56,000,000 at December 31, 1984. Cancellation of these purchase agreements could result in cancellation charges.

Commitments have been made under long-term agreements to provide fuel for the Company's thermal generating plants. Such agreements may be terminated and would require payment of termination charges.

The Company is a member of Nuclear Electric Insurance Limited (NEIL) which was established to provide insurance coverage for replacement power costs resulting from an accidental outage at a member's nuclear site and for excess property damage and decontamination liability. Under the replacement power and excess property damage coverages, the Company could be subject to a maximum assessment of $11,600,000 in the event of a loss to any NEIL insured nuclear plant, including Trojan.

In addition, the Nuclear Regulatory Commission's indemnity for public liability coverage under the Price-Anderson Act is supported by a mandatory industry-wide program. Under the program, owners of nuclear generating facilities could be assessed in the event of nuclear incidents. The Company could be subject to a retrospective assessment of $3,000,000 in the event of an incident, limited to a maximum of $7,000,000 in any calendar year.

Purchased Power

The Company has entered into long-term power purchase contracts with certain public utility districts in the State of Washington and with the City of Portland, Oregon. Annual costs to the Company are based on its proportionate share of the operating and debt service costs of each hydroelectric project whether or not operable. Significant statistics involving these purchase commitments follow (dollar amounts in thousands).

	Rocky Reach	Priest Rapids	Wanapum	Wells	Portland Hydro
Revenue Bonds					
Amount sold to finance projects	$313,100	$166,000	$197,000	$207,600	$55,000
Outstanding at December 31, 1984	$189,404	$ 78,090	$111,685	$179,600	$54,070
Company's current share of output, capacity, and cost					
Percentage of output	12.0%	13.9%	18.7%	24.4%*	100%
Net capability in megawatts	154	125	170	200	36
Annual cost, including debt service					
1984	$2,800	$2,100	$3,000	$4,500	$5,500
1983	$2,800	$2,200	$2,900	$4,400	$5,700
1982	$2,700	$2,200	$2,900	$4,300	$2,800
Completion date	1971	1961	1964	1969	1982
Contract expiration date	2011	2005	2009	2018	2017

*The Company's percentage of output of Wells will be reduced to 21.9% by 1989.

The Company's share of debt service costs, excluding interest, under the above contracts for the years 1985 through 1989 are $2,687,000, $2,813,000, $2,950,000, $3,095,000, and $3,114,000. Minimum payments through the remainder of the contracts are estimated to total $133,300,000.

Leases

The Company has leasing arrangements for its headquarters complex, combustion turbines and its share of the coal-handling facilities at Boardman. The Company's aggregate rental payments charged to expense amounted to $27,850,000 in 1984, $19,325,000 in 1983, and $20,491,000 in 1982. As of December 31, 1984, future minimum lease payments (net of sublease rentals) are approximately $22,000,000 per year for the years 1985 through 1989 and approximately $321,000,000 for the remainder of the lease terms, which includes approximately $190,000,000 for the Company's headquarter complex.

The combustion turbines and certain computer equipment leases meet the criteria for classification as capital leases. Such leases are presently accounted for as operating leases. The capitalization of such leases would not have a material effect on the balance sheet or net income.

Note 10. Litigation

Pebble Springs

In October 1982, the Coalition for Safe Power and Forelaws on Board filed suit seeking to set aside the rate order issued by the Commissioner on September 23, 1982, granting the Company an 8.6% rate increase. Certain large industrial customers of BPA intervened as plaintiffs, but have since withdrawn. The suit challenges the Commissioner's findings of fact regarding the abandonment and write-off of Pebble Springs, and the accounting treatment afforded certain financing transactions that resulted in gains to the Company. See Note 3, Abandonment of Nuclear Projects and Note 4, Gain on Debt/Equity Exchanges. The suit seeks to modify the order to require the gains from the debt/equity exchanges to be accounted for in such a manner as to directly benefit the Company's ratepayers. The Company has intervened in this suit. The trial for this case was held in October 1984. In March 1985, the judge indicated that he intends to remand the proceedings to the Commissioner. The procedure, scope and duration of the remanded proceedings is not yet known. The Company expects to receive a written order from the judge in early April.

In May 1983, the Coalition for Safe Power and two individuals filed a class action lawsuit against the Company, the Commissioner, and another investor-owned utility. The suit alleges that the Company, through debt/equity exchanges entered into during 1982, has indirectly included in its rate base a substantial portion of the costs of Pebble Springs, which the Company abandoned and wrote off in 1982. The suit also alleges that the Company retained certain revenues from the sale of power to other utilities in violation of the Company's tariffs. In addition, the suit alleges that the Commissioner has unlawfully allowed the Company to issue securities to finance obligations arising from terminated nuclear power projects and failed to enforce the laws. The suit, filed as a class action on behalf of all ratepayers of the Company, seeks treble damages. This suit has been dismissed and this action has been appealed by the Coalition for Safe Power.

While the outcome of the above matters cannot be predicted with certainty, in the Company's opinion, they have little merit.

Supply System Unit 3

In July 1983, the Supply System extended the construction delay of Supply System Unit 3 until it could obtain an assured source of funding for continued construction of the Unit but it did not adopt the BPA proposal that construction of Unit 3 be suspended for approximately two years. See Note 8, Investment in Supply System Unit 3. In response, the Company and two of the other three investor-owned utilities in the project filed a motion with the United States District Court asking for an injunction requiring the Supply System to prepare a budget for immediate resumption of construction of Unit 3 and to require the BPA to pay for its share of such construction. In October 1983, a United States district court judge denied this motion and ordered that a special arbitration board be set up to determine whether BPA's proposal for a two-year suspension of construction was a prudent utility practice. In January 1984, the arbitrators rendered their decision holding the proposed two-year suspension was not a prudent utility practice if funds were available and a prudent utility practice if funds were not available.

In late November 1984, the judge issued an order finding the Supply System's construction costs for Unit 3 should have been net billed to BPA once the Supply System alleged it was unable to obtain other financing. In that regard, the judge also made clear that the October 1983 special arbitration board decision was limited to the finding that the construction suspension on Unit 3 was not a prudent utility practice, as the findings of the special board relating to the Supply System's ability to finance were beyond the Board's authority and could not be considered. The judge then determined that funds were available to the Supply System through the net billing procedure with BPA. The judge ruled that the ownership agreement between the investor-owned utilities and the Supply System was breached by the construction suspension. Also, the judge found the BPA to be in breach of the Project Agreement and Net Billing Agreement. The issue of the materiality of the Supply System's breach was reserved for a subsequent trial. Materiality of the breach goes to the issue of the remedies available to the investor-owned utilities.

The judge ordered the parties to continue discovery on the question of materiality of the breach until March 29, 1985, at which time a trial date could be set. The question of materiality must be resolved in order to determine the effect of the breach. In addition, the investor-owned utilities have been instructed that they must decide whether to proceed on the theory that Unit 3 should be completed, or on the theory that it effectively has been terminated and that construction should not be restarted. The theory chosen could affect the remedy and amount of damages.

In order to meet possible procedural requirements and ensure the ability to make possible future claims, the Company filed an administrative claim for damages against BPA for $490 million in the event Supply System Unit 3 is terminated and for $527 million in the event construction is resumed.

On January 18, 1985, the Company and the other three investor-owned utilities in the project agreed to a proposed settlement framework with BPA. A final settlement, if adopted, would resolve the litigation relating to the suspension of construction of Unit 3. Under this proposal, BPA would make available to the Company, beginning in 1987, an amount of energy the Company would have received based on its current share in Supply System Unit 3. Energy would be provided if the project is or is not completed. In exchange, the Company would give BPA its share of any future output from Supply System Unit 3. Preservation costs incurred by the Company, after January 1, 1985, would be reimbursed by BPA. In addition, the proposed settlement framework would put BPA in control of any future decision regarding completion of Unit 3. This proposal is subject to future negotiation, public reviews, and regulatory approvals. If final agreement cannot be reached, the parties will continue the litigation.

The Company cannot predict the outcome of the above matters.

Skagit

In December 1983, the Coalition for Safe Power and an individual filed suit in the Circuit Court for Multnomah County, Oregon, seeking to set aside the rate order issued by the Commissioner on December 27, 1983, allowing the Company to recover a portion of its investment in Skagit. See Note 3, Abandonment of Nuclear Projects. The suit challenges the Commissioner's determination that Oregon Ballot Measure 9 does not preclude recovery of costs incurred for Skagit prior to the passage of the measure. Ballot Measure 9 prohibits utilities from including in rate base the costs for new plants until placed in service. The Company has intervened in this suit.

In February 1984, the Company filed suit in the Circuit Court for Multnomah County, Oregon, challenging that portion of the Commissioner's order that denied recovery of the amount of its investment in Skagit incurred after the passage of Ballot Measure 9. The Company believes that Ballot Measure 9 is not applicable to its investment in Skagit and that it should be allowed recovery of its entire investment. The Company is also challenging the Commissioner's statement in the order that he has authority to deny recovery of post Ballot Measure 9 investment even if the Ballot Measure does not prohibit recovery.

These two suits were consolidated for trial. In February 1985, the Office of the Attorney General of the State of Oregon, which represents the Commissioner, took the position, contrary to the Commissioner's position in the order, that Ballot Measure 9 precludes all rate recovery of Skagit. The Company cannot predict the outcome of this suit.

QUARTERLY COMPARISON FOR 1984 AND 1983 (Unaudited)

	March 31	June 30	September 30	December 31
		(Thousands of Dollars)		
1984				
Operating revenues	$190,977	$153,363	$156,029	$221,699
Operating income	$ 69,621	$ 47,707	$ 40,318	$113,671[2]
Net income	$ 54,174	$ 31,258	$ 29,799	$ 43,133[3]
Income available for common stock	$ 45,514	$ 22,646	$ 21,197	$ 34,535
Common stock				
Average shares outstanding	43,719,340	44,066,393	44,399,408	44,701,021
Earnings per average share	$1.04	$.51	$.48	$.77
1983				
Operating revenues	$140,759	$136,149	$130,846	$178,650
Operating income	$ 52,286	$ 40,168	$ 36,297	$ 80,714[2]
Income before extraordinary item	$ 40,451	$ 28,456	$ 22,657	$ 71,178
Extraordinary item	$ —	$ —	$ —	$ (48,598)[4]
Net income	$ 40,451	$ 28,456	$ 22,657	$ 22,580
Income available for common stock	$ 31,710	$ 19,750	$ 13,966	$ 13,908
Common stock				
Average shares outstanding	41,736,594	42,218,753	42,771,464	43,324,643
Earnings per average share[1]				
Before extraordinary item	$.76	$.47	$.33	$1.44
Extraordinary item	—	—	—	(1.12)[4]
After extraordinary item	$.76	$.47	$.33	$.32

[1]As a result of dilutive effect of shares issued during the period, quarterly earnings per share cannot be added to arrive at annual earnings per share number.
[2]Includes the reduction of income tax expense of approximately $42 million in 1984 and $26 million in 1983 resulting from an order issued by the Public Utility Commissioner of Oregon authorizing the accelerated amortization of certain unamortized investment tax credits.
[3]Includes a net charge to income of $47 million resulting from an adjustment to the Company's investment in Supply System Unit 3.
[4]Extraordinary loss from the termination of the Skagit/Hanford nuclear project.

SUPPLEMENTARY INFORMATION TO DISCLOSE THE EFFECTS OF CHANGING PRICES (Unaudited)

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

The table below provides data reflecting the effects of changes in specific prices (current costs) by indexing the existing plant using the Handy-Whitman Index of Public Utility Construction Costs. This measure reflects the current cost of replacing existing plant, rather that the historical cost.

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

Pursuant to regulations, with the exception of decommissioning costs, only the depreciation of historical cost of plant is recoverable in revenues. See Note 1 of the Notes to Financial Statements.

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

Statement of Income From Operations Adjusted for Changing Prices

For the Year Ended December 31, 1984

	Conventional Historical Cost	Current Dollar Cost in Average 1984 Dollars
	(Thousands of Dollars)	
Operating revenues	$722,068	$ 722,068
Purchased power and production	118,728	118,728
Other operating and maintenance expenses	197,611	197,611
Depreciation and amortization expense	80,355	175,988
Income tax expense	54,057	54,057
Interest expense	110,442	110,442
Allowance for funds used during construction	(5,878)	(5,878)
Other expense	8,389	8,389
	563,704	659,337
Income (excluding adjustment to net recoverable cost)	$158,364	$ 62,731
Increase in specific prices (current cost) of plant held during the year*		$ 43,000
Adjustment to net recoverable cost		168,000
Effect of increase in general price level		(230,000)
Excess of increase in general prices over increase in specific price level (after adjustment to net recoverable cost)		(19,000)
Gain from decline in the dollar's purchasing power on net amounts owed		47,000
Net		$ 28,000

* At December 31, 1984, current cost of electric utility plant, net of accumulated depreciation and nuclear fuel storage liability, was $3,999,790,000 while historical cost (net cost recoverable) was $1,987,635,000.

Selected Financial Data Adjusted for Changing Prices

For the Years Ended December 31	**1984**	1983	1982	1981	1980
	(Thousands of Average 1984 Dollars)				
Operating revenues	**$722,068**	$611,362	$615,736	$ 679,291	$ 617,961
Historical Cost Information Adjusted for Changes in Specific Prices (Current Cost Information)					
Income from operations	**$ 62,731**	$ 77,092	$ 69,103	$ 42,636	$ 34,508
Income per common share after preferred dividend requirements	**$ .64**	$ .96	$ .98	$ .70	$ .48
Excess of increase in general price level over increase in specific prices (after adjustment to net recoverable cost)	**$(19,000)**	$ 13,000	$ 9,000	$(103,000)	$(184,000)
Net assets at year-end	**$840,000**	$809,000	$804,000	$ 778,000	$ 755,000
General Information					
Gain from decline in the dollar's purchasing power on net amounts owed	**$ 47,000**	$ 50,000	$ 55,000	$ 127,000	$ 175,000
Cash dividends declared per common share	**$ 1.81**	$ 1.85	$ 1.87	$ 1.95	$ 2.14
Market price per common share at year-end	**$ 16.15**	$ 13.58	$ 16.23	$ 13.81	$ 14.00
Average Consumer Price Index	**311.1**	298.4	289.1	272.4	246.8

MARKET AND DIVIDEND INFORMATION

Common Stock

The Company's common stock is principally traded on the New York Stock Exchange. The following table shows the high, low and closing sales prices of the common stock on the composite tape (as reported by *The Wall Street Journal*) during the respective periods.

	1984				1983			
Quarter	**1st**	**2nd**	**3rd**	**4th**	1st	2nd	3rd	4th
High	**14¾**	**14¾**	**15⅝**	**17½**	16⅝	16½	15⅛	14⅞
Low	**13¼**	**13**	**13½**	**15⅛**	14⅞	13¼	13⅝	13⅛
Closing price	**13⅞**	**14¼**	**15⅜**	**16⅜**	15	13¾	14½	13¼
Cash dividends declared (cents)	**44½**	**45½**	**45½**	**45½**	43½	44½	44½	44½

The approximate number of stockholders of record as of December 31, 1984 is 88,297.

Preferred Stock

The $2.60, $4.40, $4.32 and 11.50% Series of preferred stock are listed on the New York Stock Exchange. The following table shows the high and low sales prices of these four series on the composite tape (as reported by *The Wall Street Journal*) for the respective periods. The remaining five series are traded infrequently over the counter and disclosure of quarterly price ranges is not meaningful.

	1984				1983			
Quarter	**1st**	**2nd**	**3rd**	**4th**	1st	2nd	3rd	4th
$2.60 High	**20¼**	**19¾**	**19½**	**21¾**	22¾	21⅞	20	20½
Low	**19**	**17½**	**18⅛**	**18⅞**	19⅝	18⅝	18⅜	18⅞
$4.40 High	**32½**	**31¼**	**32**	**33¼**	35	34¼	34¼	33¼
Low	**29¼**	**28¼**	**29**	**30**	32	28⅝	29⅞	29¼
$4.32 High	**32½**	**30¾**	**31¼**	**32½**	34⅞	34	32⅝	32⅞
Low	**29½**	**28¼**	**28¼**	**29½**	31	27¼	29⅛	28½
11.50% High	**96**	**94**	**93½**	**96½**	95¼	98½	100	99¾
Low	**91½**	**90**	**90½**	**91**	90	93	95⅛	90⅝

Quarterly cash dividends were paid on each class of the Company's preferred stock at its stated rate during 1984 and 1983.

NEW YORK STOCK EXCHANGE OR PACIFIC STOCK EXCHANGE TRADING SYMBOL:

PGN

STOCKHOLDER INFORMATION

Investor Services

All communications that involve dividends, stock certificates, dividend reinvestment statements, address changes, stock transfer, and other administrative matters should be directed to our Transfer Agent, U.S. National Bank of Oregon. Be sure to mention in all communications with the Agent that you are a stockholder of PGE. If possible, include your account number as well. The *mailing address* is:

U.S. National Bank of Oregon
Stock Transfer Department
P.O. Box 3850
Portland, OR 97208
Phone: (503) 225-6474.

Hand delivery of certificates for transfer may be made to:

U.S. National Bank of Oregon
Stock Transfer Department
225 S.W. Broadway,
Fifth Floor
Portland, OR 97205

Common Stock Investment Plan

Common stockholders of record, as well as customers of PGE, are eligible to participate in the Company's Common Stock Investment Plan (CSIP). New common stockholders of record (not "street name" holders) automatically receive Plan information and an Authorization Form when they become stockholders. These documents are available to all common stockholders of record at any time from U.S. National Bank of Oregon, the Agent for the Plan.

The Plan allows reinvestment of dividends toward the purchase of PGE common shares at the prevailing market price without a service fee.

Stockholders should read the Prospectus describing the CSIP for more detailed information.

Open Market Stock Purchase Arrangement

If you are a current PGE common stockholder of record (with PGE common stock registered in your name) or if you participate in the Company's Common Stock Investment Plan (CSIP), you may purchase common stock through the Open Market Stock Purchase Arrangement (Arrangement), rather than directly from a stockbroker.

Additional details are given in the Prospectus describing the CSIP and Arrangement which you may request from the Agent, U.S. National Bank of Oregon.

Stock Exchange Listings

The common stock of the Company is listed on the New York and Pacific Stock Exchanges and is quoted in the daily stock tables carried by most newspapers under the notation PortGE.

The 11.50%, $2.60, $4.40 and $4.32 Series Cumulative Preferred Stock issues are publicly traded and listed on the New York Stock Exchange. Those newspapers which list these stocks use the notations PoG for the 11.50% and PorG for the $2.60, $4.40 and $4.32 Series.

Dividend Payment Dates

The Company's Board of Directors has traditionally declared quarterly common and preferred stock dividends payable on the fifteenth of the months of January, April, July and October. The record dates for these dividends in 1985 are planned to be March 25, June 25, September 25, and December 27.

Investor Publications

Copies of PGE's stockholder reports, the Company's Fact Book and the Stockholder Guide may be obtained by written request to the Investor Relations Department at the home office address.

Form 10-K

PGE's annual report to the Securities and Exchange Commission (Form 10-K) is available upon written request to James N. Woodcock, Vice President, Treasurer and Controller, at the home office address.

Home Office

Portland General Electric Company
121 S.W. Salmon Street
Portland, Oregon 97204
(503) 226-8333

If you would like more information about being a stockholder in Portland General Electric Company, please contact us directly:

Portland General Electric Company
Investor Relations Department
121 S.W. Salmon Street
Portland, OR 97204
Phone: (503) 226-8599

Notice of Annual Meeting

The 1985 annual meeting of Portland General Electric Company stockholders will be held at 2:00 p.m. on Wednesday, May 22, 1985 at the Company's Western Division Center, 14655 S.W. Old Scholls Ferry Road, Beaverton, Oregon. Common stockholders of record at the close of business on April 4, 1985 will be entitled to vote. All stockholders are welcome to attend.

It has been and is the policy of Portland General Electric Company to provide equal employment opportunity to all applicants for employment. Further, it is Company policy to administer hiring, conditions, and privileges of employment, compensation, training, upgrading, promotion, transfer, and termination of employment to all employees without discrimination or harrassment because of race, religion, color, national origin, age, sex, whether or not handicapped, marital status, or any other status applicable to federal or state law.

SELECTED FINANCIAL DATA AND STATISTICS

Financial Comparisons

	1984	1983
Key Results (thousands)		
Operating Income	$271,317[1]	$209,465[1]
Income Before Extraordinary Items	$158,364	$162,742
Extraordinary Items	—	$(48,598)[2]
Net Income	$158,364	$114,144
Earnings Per Share Before Extraordinary Items	$2.80	$3.01
Extraordinary Items Per Share	—	(1.14)[2]
Earnings Per Share After Extraordinary Items	$2.80	$1.87
Dividends Declared Per Share	$1.81	$1.77
Total Assets	$2,373,843	$2,348,119

Sales and Customers

	1984	1983
Kilowatt-Hours Sold (millions)		
Residential	5,768	5,434
Commercial	4,209	3,925
Industrial	3,071	3,002
Miscellaneous	96	99
Sales for resale	2,240	1,842
Total	15,384	14,302
Operating Revenues (thousands)		
Residential	$257,996	$212,590
Commercial	227,860	173,401
Industrial	140,034	109,133
Miscellaneous	29,073	36,524
Sales for resale	67,105	54,756
Total	$722,068	$586,404
Average price per kwh (sales to ultimate customers)	4.84¢	4.04¢
Customers (at year-end)		
Residential	454,732	454,950
Commercial	60,575	59,551
Industrial	185	190
Miscellaneous	631	633
Sales for resale	6	4
Total	516,1[illegible]9	515,328
Residential Service (average per customer)		
Annual use (kilowatt-hours)	12,64[illegible]	12,027
Annual revenue	$565.61	$470.51
Price per kilowatt-hour	4.47¢	3.91¢

Electric Operations

	1984	1983
Kilowatt-Hour Output (millions)		
Generated (net)—hydro	2,995	2,841
Generated (net)—thermal	4,744	3,352
Purchased—primarily hydro	8,451	8,988
	16,190	15,181
Losses and company use	806	879
Total	15,384	14,302
Peak Load KW—Winter (thousands)	2,862	3,166

Utility Plant

	1984	1983
Gross Additions (thousands)	$128,957	$191,131
Gross Plant (thousands)	$2,588,875	$2,546,231

Stockholders' Equity and Long-Term Debt (December 31)

	1984	1983
Common Stock Equity (thousands)	$851,555	$789,027
Book value per share	$19.05	$18.18
Dividends paid per share	$1.80	$1.76
Average shares outstanding	44,221,525	42,512,999
Preferred Stock Equity (thousands)	$262,093	$265,393
Dividend requirement	$34,472	$34,810
Embedded cost	13.0%	13.0%
Long-Term Debt (thousands)	$948,568	$961,398
Interest	$107,437	$112,674
Embedded cost	11.0%	10.3%

Employee Data

	1984	1983
Number of Employees (December 31)	3,124	3,212
Operating Payroll (thousands)	$79,771	$75,640
Construction and Other Payroll (thousands)	$27,011	$27,827

1. Includes the reduction of income tax expense of approximately $42 million in 1984 and $26 million in 1983 resulting from an order by the Public Utility Commissioner of Oregon authorizing the accelerated amortization of certain unamortized investment tax credits.
2. Includes the effect of an extraordinary loss from the termination of the Skagit/Hanford nuclear project.

1982	1981	1980	1979	1978	1977	1976	1975	1974
$204,097	$184,479	$132,193	$65,289	$83,239	$73,127	$82,677	$62,162	$46,263
$150,162	$112,341	$86,200	$46,122	$48,784	$36,988	$52,021	$46,003	$32,918
$(26,156)[3]	—	—	—	$7,845	—	—	—	—
$124,006	$112,341	$86,200	$46,122	$56,629	$36,988	$52,021	$46,003	$32,918
$3.02	$2.54	$2.03	$1.06	$1.40	$1.09	$2.27	$2.52	$2.17
(.64)[3]	—	—	—	.32	—	—	—	—
$2.38	$2.54	$2.03	$1.06	$1.72	$1.09	$2.27	$2.52	$2.17
$1.74	$1.71	$1.70	$1.70	$1.70	$1.70	$1.64	$1.58	$1.52
$2,322,972	$2,221,373	$2,050,244	$1,808,054	$1,573,547	$1,361,058	$1,190,733	$1,036,373	$839,527
5,663	5,349	5,526	5,731	5,365	5,120	5,024	4,982	4,700
3,925	3,844	3,717	3,711	3,403	3,175	3,045	3,169	2,632
3,227	3,695	3,479	3,585	3,251	3,486	3,439	2,699	3,364
93	107	110	112	113	109	107	104	106
1,999	2,312	1,042	513	1,173	44	394	530	600
14,907	15,307	13,874	13,652	13,305	11,934	12,009	11,484	11,402
$203,405	$212,463	$201,192	$159,135	$143,829	$130,052	$109,571	$88,351	$73,124
169,932	149,507	127,165	96,462	77,000	64,695	56,027	53,628	41,881
118,270	116,295	94,482	72,839	52,662	47,721	39,654	24,504	20,888
(4,829)	17,888	21,431	9,414	12,107	6,996	7,073	8,898	6,970
85,415	98,636	45,967	12,131	18,080	3,609	5,462	4,561	3,138
$572,193	$594,789	$490,237	$349,981	$303,678	$253,073	$217,787	$179,942	$146,001
3.87¢	3.73¢	3.34¢	2.54¢	2.30¢	2.08¢	1.80¢	1.55¢	1.29¢
448,863	443,414	433,527	423,389	407,056	389,700	371,315	358,438	347,671
57,914	56,698	55,279	54,029	52,107	49,883	47,071	45,547	44,143
191	197	193	184	187	192	192	187	199
629	1,397	1,373	1,367	1,347	1,444	1,367	1,370	1,397
3	4	3	2	1	2	3	3	1
507,600	501,710	490,375	478,971	460,698	441,221	419,948	405,545	393,411
12,691	12,181	12,910	13,814	13,459	13,455	13,787	14,139	13,733
$455.86	$483.82	$470.01	$383.54	$360.81	$341.76	$300.68	$250.74	$213.67
3.59¢	3.97¢	3.64¢	2.78¢	2.68¢	2.54¢	2.18¢	1.77¢	1.56¢
2,644	2,205	2,271	2,285	2,313	2,114	2,537	2,693	2,753
4,003	5,888	4,941	4,523	1,307	4,675	1,147	170	152
9,002	8,196	7,779	7,754	10,819	5,936	9,214	9,613	9,465
15,649	16,289	14,991	14,562	14,439	12,725	12,898	12,476	12,370
742	982	1,117	910	1,134	791	889	992	968
14,907	15,307	13,874	13,652	13,305	11,934	12,009	11,484	11,402
2,764	2,687	3,041	2,954	2,776	2,519	2,310	2,225	2,321
$305,768	$294,651	$292,833	$254,289	$278,265	$201,896	$191,475	$182,513	$153,580
$2,518,698	$2,376,282	$2,134,280	$1,891,845	$1,672,237	$1,405,031	$1,213,043	$1,050,373	$883,268
$755,526	$703,990	$627,069	$551,612	$478,759	$410,323	$361,070	$283,938	$241,965
$18.27	$17.63	$17.39	$17.55	$18.42	$18.45	$18.94	$18.32	$17.92
$1.74	$1.70	$1.70	$1.70	$1.70	$1.685	$1.625	$1.565	$1.51
40,737,617	39,024,435	35,788,621	30,403,911	24,709,977	21,414,344	17,687,431	14,333,333	12,125,000
$268,676	$146,993	$148,500	$150,000	$151,500	$154,500	$130,500	$108,500	$80,000
$26,956	$13,373	$13,607	$13,830	$14,175	$13,657	$11,812	$9,818	$6,577
12.9%	9.0%	9.1%	9.1%	9.2%	9.2%	9.3%	9.1%	8.2%
$1,016,401	$1,068,841	$1,054,185	$754,441	$735,119	$656,724	$533,450	$444,991	$335,344
$115,137	$124,365	$95,630	$71,356	$59,389	$49,374	$41,610	$28,866	$21,116
10.4%	10.5%	11.5%	9.3%	9.3%	8.3%	8.0%	8.1%	6.3%
3,240	3,244	3,106	2,789	2,579	2,441	2,311	2,116	2,008
$63,564	$57,809	$46,590	$37,105	$31,631	$27,808	$22,798	$18,498	$15,703
$33,071	$33,134	$32,701	$25,183	$21,293	$19,647	$18,564	$18,033	$14,493

3. Includes the effect of an extraordinary loss from the abandoned Pebble Springs nuclear project ($79,773,000 or $1.96 per share), and an extraordinary gain from debt/equity exchanges ($53,617,000 or $1.32 per share).

SENIOR OFFICERS

Robert H. Short
Chairman of the Board and
Chief Executive Officer

William J. Lindblad
President

*Joseph L. Williams**
Vice Chairman of the Board

James W. Durham
Senior Vice President,
General Counsel and Secretary

Ken L. Harrison
Senior Vice President
and Chief Financial Officer

Charles L. Heinrich
Senior Vice President,
Electric Operations

*Glen E. Bredemeier***
Vice President, Power Operations

Leo Chaffin
Vice President and General
Division Manager

Charles Goodwin, Jr.
Vice President, Thermal Operations

*Douglas E. Heider****
Vice President, Public Affairs

CD Hobbs
Vice President, Corporate Planning and
Development

Leslie E. Hodel
Vice President, Power Systems

Wayne A. Huddleston
Vice President, Operating Services

William June
Vice President, Public Affairs

Hillman Lueddemann, Jr.
Vice President and Assistant to the
Chairman of the Board

*Don R. Miller**
Vice President, Operating Services

E. Kay Stepp
Vice President, Management Resources

F. D. Wieden
Vice President, Public Relations

Bart D. Withers
Vice President, Nuclear

James N. Woodcock
Vice President, Treasurer and Controller

**Retired March 1, 1984*
***Retired October 31, 1984*
****Retired December 31, 1984*

BOARD OF DIRECTORS

	Director Since
Gwyneth E. Gamble Booth Anchor-Producer at KOAP, Portland—Oregon Public Broadcasting	1981
*Warren W. Braley** Partner, Braley & Graham Co., Portland—Buick and Isuzu automobile dealer	1957
Peter J. Brix Chairman, Knappton Corporation, Portland—marine transportation	1983
*Robert G. Cameron*** Executive Vice President, Lloyd Corporation Ltd., Portland—real estate management and development	1985
*Dr. Jerry E. Hudson**** President, Willamette University, Salem	1984
William J. Lindblad President, Portland General Electric Company, Portland—electric utility	1980
Ernest H. Miller President, Mortgage Bancorporation, Salem—real estate loans and investments throughout Oregon	1963
Richard G. Reiten President and Chief Executive Officer, Nicolai Company, Portland—manufacturer of wood doors and specialty veneers	1983
Robert W. Roth Retired President and Chief Executive Officer, Jantzen Inc., Portland—manufacturer of sportswear and swimwear	1972
John L. Schwabe Partner, Schwabe, Williamson, Wyatt, Moore and Roberts—Portland attorneys	1977
Robert H. Short Chairman of the Board and Chief Executive Officer, Portland General Electric Company, Portland—electric utility	1971
Earl Wantland President and Chief Executive Officer, Tektronix, Inc., Beaverton—manufacturer of electronic equipment	1973
Frank M. Warren Retired Chairman of the Board and Chief Executive Officer, Portland General Electric Company, Portland—electric utility	1949
William W. Wessinger Retired Chairman of the Board, Blitz-Weinhard Company, Portland—brewery	1968
Robert J. Wilhelm President, Rudie Wilhelm Warehouse Co., dba Wilhelm Trucking Co., Portland—trucking and warehousing	1973
*Joseph L. Williams***** Vice Chairman of the Board, Portland General Electric Company, Portland—electric utility	1980
Ralph E. Williams President, Williams Investment Co., Portland—personal investments	1963

*Retired March 1, 1985
**Appointed March 1, 1985
***Appointed March 7, 1984
****Retired March 1, 1984

Recently appointed members of PGE's Board of Directors are Dr. Jerry E. Hudson, President of Willamette University in Salem, and Robert G. Cameron, Executive Vice President of the Lloyd Corp., real estate management and development company in Portland.

Young and old alike take pleasure in riding one of the nation's oldest carousels housed in an open area at Willamette Center, PGE's corporate headquarters. Local enthusiasts restored the carousel and the Company donated the space. A carousel museum is also on the property.

Oregonians like the outdoors and the chance to enjoy the beauty of their state. Last year more than 500,000 people visited one of the nine campgrounds and picnic areas PGE operates at its hydro projects and the Trojan Nuclear Plant.

Revitalization of Portland's southwest waterfront was spurred by PGE's construction of a new corporate headquarters in the mid-1970s. Now the area bustles with new office complexes and unique services like the Yamhill Marketplace where shoppers have their choice of fresh produce and other foods from around Oregon and the world.

New electronic recording devices are helping PGE's meter readers in the field. Use of the hand-held computers eliminates the need for stacks of computer cards and improves accuracy as well as turnaround time in billing for service.

The Trojan Nuclear Plant, PGE's largest single resource, supplied nearly 25 percent of the electricity used by the Company's 516,000 customers. In March 1985, it passed more than 138 days of continuous operation, breaking its previous record.

Portland General Electric Company
121 S.W. Salmon Street
Portland, OR 97204

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