



**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON**

UM 1121

**APPLICATION OF
OREGON ELECTRIC UTILITY COMPANY, LLC, *ET AL.*
TO ACQUIRE
PORTLAND GENERAL ELECTRIC COMPANY**

MARCH 8, 2004

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**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON
UM 1121**

**Application of Oregon Electric Utility Company, LLC, and
TPG Partners III, L.P., TPG Partners IV, L.P.,
and
Managing Member LLC, Neil Goldschmidt,
Gerald Grinstein, and Tom Walsh
For an Order Authorizing
Oregon Electric Utility Company, LLC
To Acquire
Portland General Electric Company**

March 8, 2004

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2 **BEFORE THE PUBLIC UTILITY COMMISSION**
3 **OF OREGON**
4 **UM 1121**

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6 In the Matter of the Application of OREGON
7 ELECTRIC UTILITY COMPANY, LLC, TPG
8 PARTNERS III, L.P., TPG PARTNERS IV, L.P.,
9 MANAGING MEMBER LLC, NEIL
10 GOLDSCHMIDT, GERALD GRINSTEIN, and
11 TOM WALSH for an Order Authorizing Oregon
Electric Utility Company, LLC to Acquire Portland
General Electric Company

APPLICATION

12 Oregon Electric Utility Company, LLC (“Oregon Electric”) and three of its members,
13 TPG Partners III, L.P., TPG Partners IV, L.P., and Managing Member LLC, along with Neil
14 Goldschmidt, Gerald Grinstein, and Tom Walsh, who will own Managing Member LLC
15 (collectively referred to as the “Applicants”), respectfully apply for an order of the Oregon
16 Public Utility Commission (the “Commission”) approving Oregon Electric’s acquisition of the
17 common stock of Portland General Electric Company (“PGE”) from PGE’s parent company,
18 Enron Corp. (“Enron”). Upon approval of this Application by the Commission and closing of
19 the transaction with Enron, Applicants will exercise substantial influence over the policies and
20 actions of PGE within the meaning of ORS § 757.511. This application is filed in accordance
21 with ORS § 757.511.

22 **I. INTRODUCTION**

23 Oregon Electric has agreed to purchase PGE from Enron, subject to this Commission’s
24 and certain other regulatory approvals. The issue for the Commission is whether Oregon
25 Electric’s purchase “will serve the utility’s customers in the public interest.”
26

1 Oregon Electric’s plan is simple and straightforward: make PGE’s core business of
2 providing safe, reliable and efficient electric service to its customers its sole focus. The plan –
3 and the benefits it will bring to PGE’s customers and the public interest – may be summarized as
4 follows:

- 5 • Remove PGE from Enron’s ownership and place it in the hands of unified
6 ownership—ensuring certainty of ownership, stability, and strong shareholder
7 support;
- 8 • Re-establish local focus through significant Oregon representation on PGE’s
9 Board of Directors—ensuring accountability to customers and community
10 concerns;
- 11 • Recruit a first-class board, including experienced industry executives and national
12 and local business leaders—ensuring that PGE management has the best advice
13 on how to navigate the challenges ahead;
- 14 • Re-invigorate board-level strategic direction and long-term planning—ensuring
15 PGE’s long term health;
- 16 • Invest in the future of PGE through capital reinvestment—ensuring reliability and
17 efficiency from existing assets, and the acquisition and development of new
18 resources; and
- 19 • Reinforce management’s efforts to achieve best-in-class performance across
20 PGE’s critical service metrics and to instill financial discipline throughout the
21 business—ensuring that customers receive safe, reliable and efficient electric
22 service.

23 Through these initiatives, the Applicants will help PGE shed the burdens and distractions
24 of its most recent past, thoughtfully and skillfully address its future, and strengthen the
25 company’s place in this community as a top-quality service provider, employer, business partner,
26 and corporate citizen.

1 The proposed acquisition is unlike any this Commission has addressed in the past. Prior
2 proposed and approved acquisitions involved mergers in which an Oregon utility would become
3 part of another utility group or energy conglomerate. Unlike those mergers, this proposed
4 transaction will leave PGE independent in the sense that it will not be part of a larger, integrated
5 operating business. This means the organization, from top to bottom, will be able to focus solely
6 on serving its Oregon customers rather than being distracted by business integration issues and
7 unnecessary complexity. This also means the utility Board, management, and employees will
8 not have to contend with competing interests from other businesses in a larger group. Applicants
9 believe that at this point in PGE’s existence such independence, coupled with a first-class board
10 of directors and backing responsible and skilled investors with a strong track record of helping
11 companies meet unusual challenges, will best position PGE for renewed stability, growth and
12 effectiveness in serving its customers and the broader interests of Oregon.

13 **II. PRELIMINARY MATTERS**

14 **A. Application Overview**

15 The Commission must find that “approval of the application will serve the utility’s
16 customers in the public interest.” By means of this application and the attached Exhibits¹ (the
17 “Application”), Applicants will demonstrate that Oregon Electric’s acquisition of PGE will bring
18 substantial benefits to PGE’s customers and the public interest.

19 Part III of the Application provides detailed information about the proposed transaction.
20 It describes the identity, financial ability, experience, and knowledge of the Applicants. It
21 provides a thorough look at the details of the transaction, including the proposed corporate
22 structure and financing. It also describes how the Applicants will be involved in and contribute
23 to PGE’s governance. Part IV of the Application sets forth the benefits that PGE’s customers
24

25
26 ¹ This application is supported by the Direct Testimony of (1) Local Applicant Panel, (2) Kelvin Davis, (3) Karl McDermott, and (4) Richard Schifter, which are included as Exhibits 2 through 5, respectively.

1 and the general public will gain from Oregon Electric’s acquisition of PGE. It demonstrates how
2 and in what ways the proposed transaction meets the Commission’s legal standard for approval.

3 **B. Jurisdiction and Review Process**

4 The Commission has jurisdiction to review this Application pursuant to ORS § 757.511.
5 Commission authorization must be obtained before any person may directly or indirectly
6 exercise substantial influence over the policies and actions of a public utility that provides heat,
7 light, or power, if such person is or would become an “affiliated interest” with such public
8 utility, as defined in ORS §§ 757.015(1), (2), or (3).² The Commission is required to “examine
9 and investigate” the Application, but it is not required to provide for a contested case hearing or
10 any other specific process.³

11 A list identifying the relevant parties to this Application and the individuals who should
12 receive notices and communications concerning the Commission’s review process can be found
13 in Exhibit 1.

14 **C. Application Checklist**

15 Oregon law and the Commission’s own rules require that each Application provide
16 detailed information regarding specific topics of concern.⁴ For the ease of review, Appendix A
17 provides a checklist identifying each topic and that part of the Application or its Exhibits in
18 which the topic is addressed. If not set out elsewhere, the information required is set forth in the
19 checklist itself.

20 **D. Time Extension For Processing Application**

21 By statute, the Commission must issue an order disposing of this Application within 19
22 business days of its receipt.⁵ Oregon Electric hereby consents to an extension of this deadline

23 ² ORS § 757.015 provides that an “affiliated interest” includes corporations and persons owning or holding directly
24 or indirectly, in any chain of successive ownership, five percent or more of the voting securities of a public utility.

25 ³ See *In the Matter of the Application of Enron Corp. for an Order Authorizing the Exercise of Influence over
Portland General Electric Company*, OPUC Order No. 97-196, Docket No. UM 814 (June 4, 1997).

26 ⁴ ORS § 757.511(2); OAR 860-027-0200.

⁵ ORS § 757.511(3).

1 until September 15, 2004. Oregon Electric is willing to consent to this extension so that the
2 Commission can fully investigate and process the Application in an orderly manner.

3 **III. THE PROPOSED TRANSACTION**

4 Oregon Electric has agreed to acquire all the issued and outstanding common stock of
5 PGE for \$1.25 billion plus an estimated purchase price adjustment, for a total purchase price of
6 approximately \$1.4 billion (the “Proposed Transaction”).⁶ As a result of the Proposed
7 Transaction, Oregon Electric will serve as a “holding company” whose sole purpose will be to
8 hold the stock ownership of PGE. PGE’s name will not change, PGE headquarters will remain
9 in Portland, and PGE’s current management team will continue to operate the utility on a day-to-
10 day basis. Significantly, however, Oregon Electric will appoint a new board of directors of PGE
11 with considerable business expertise and prominent local representation.

12 **A. Introduction to Oregon Electric and its Members**

13 At closing, Oregon Electric will be comprised of three distinct groups: (1) the “Local
14 Applicants,” which will be made up of Managing Member LLC and its owners, Neil
15 Goldschmidt, Gerald Grinstein, and Tom Walsh;⁷ (2) the “TPG Applicants,” which will be
16 comprised of two investment funds, TPG Partners III, L.P. and TPG Partners IV, L.P., managed
17 by Texas Pacific Group (“TPG”);⁸ and (3) the “Passive Investors,” which will include the Bill &
18 Melinda Gates Foundation (the “Gates Foundation”) and OCM Opportunities Fund III, L.P.
19 (“OCM”). The Local Applicants, through Managing Member LLC, collectively will own
20 approximately 0.4% of the economic interest in Oregon Electric and hold 95% of the voting
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22
23 ⁶ The Stock Purchase Agreement between Oregon Electric and Enron is attached as Exhibit 6.

24 ⁷ Messrs. Goldschmidt, Grinstein and Walsh will own 100% of Managing Member LLC, which is the entity through
25 which they will be making their investment in Oregon Electric. Because they will own and control Managing
26 Member LLC, for ease of reading this Application, the term Local Applicants is used in reference to those
individuals, unless otherwise specified.

⁸ TPG is the name under which Tarrant Partners L.P. does business.

1 control.⁹ The TPG Applicants will own 79.9% of the economic interest in Oregon Electric and
2 hold 5% of the voting control. The Passive Investors will own approximately 19.7% of the
3 economic interest and hold no voting control. A chart of the ownership structure of Oregon
4 Electric is attached as Exhibit 9.¹⁰

5 ***1. The Local Applicants***

6 The Local Applicants have strong ties to Oregon and the region. They are: (1) former
7 Oregon Governor Neil Goldschmidt; (2) Seattle native Gerald (Jerry) Grinstein, the former CEO
8 of Burlington Northern, Inc., who has worked with Oregon governmental agencies on issues
9 ranging from economic development to light rail transit; and (3) Tom Walsh, a Portland builder
10 of affordable housing and the former General Manager of Tri-Met. The Local Applicants will
11 play a critical role in the future of PGE if this transaction is approved—they will serve as
12 members of the PGE Board of Directors, and Mr. Goldschmidt will serve as Chairman. As a
13 further indication of their commitment to the success of PGE, the Local Applicants will
14 collectively invest approximately \$2.5 million in Oregon Electric. Detailed biographies of each
15 of the Local Applicants are included in Exhibit 11. In brief, their backgrounds are as follows:

16 **Neil Goldschmidt.** Mr. Goldschmidt is a principal in Goldschmidt Imeson Carter, a
17 Portland consulting firm focused primarily on strategic planning and problem solving for
18 national and international businesses. Mr. Goldschmidt has extensive management experience in
19 both the public and private sector and a long record of public service. Most recently,
20 Mr. Goldschmidt was named to head the Oregon State Board of Higher Education. From 1987
21 to 1991, Mr. Goldschmidt served as Governor of the State of Oregon. While Governor, he led
22 the “Oregon Comeback,” a rebirth of economic vitality founded on the key principles of building
23

24 ⁹ The Local Applicants’ voting control will be subject to certain consent rights to be held by the TPG Applicants.
25 The list of consent rights is attached as Exhibit 7. If Congress repeals the Public Utility Holding Company Act
26 (“PUHCA”), the voting interests to be held by the Local Applicants and the TPG Applicants in Oregon Electric will
be adjusted to reflect their respective equity holdings. An explanation of PUHCA is set out in more detail in the
testimony of Richard Schifter, attached as Exhibit 5.

¹⁰ The Term Sheet for Oregon Electric is attached as Exhibit 10.

1 new partnerships, targeting investments, leveraging resources, and raising expectations of what
2 every region of the state could accomplish. In addition to his governorship, Mr. Goldschmidt has
3 served as President of NIKE Canada, International Vice President of NIKE, and as a director on
4 the boards of public and private companies, including National Semiconductor, Kaiser
5 Foundation Health and Pacific Gas Transmission Company. Finally, he served as U.S. Secretary
6 of Transportation under President Jimmy Carter from 1979 to 1981, and was elected Mayor of
7 Portland in 1972 at age 32.

8 **Jerry Grinstein.** Mr. Grinstein is a principal of Madrona Investment Group, LLC, a
9 Seattle-based investment company, and a strategic advisor to Madrona Venture Fund, a Seattle-
10 based venture fund. In addition, he currently is Chief Executive Officer of Delta Air Lines, Inc.
11 (“Delta”) and a member of its Board of Directors. Jerry Grinstein previously served as non-
12 executive Chairman of Delta from 1997 to 1999 and thereafter has remained on the board as a
13 director. In 1985, he was elected to the Board of Directors of Burlington Northern, Inc. (“BNI”),
14 where he served as Chief Executive Officer from 1989 to 1995. While at BNI, he oversaw the
15 acquisition of Santa Fe Railroad, which created the nation’s largest railroad. Mr. Grinstein also
16 previously served as non-executive Chairman of the Board of Agilent Technologies from 1999 to
17 2002, and as Chief Executive Officer and Chairman of Western Airlines, Inc. Mr. Grinstein is
18 President of the Board of Regents of the University of Washington, a member of the Henry M.
19 Jackson Foundation, and serves on the boards of the Seattle Symphony and The Seattle
20 Foundation. During his tenure at Western Airlines and BNI, Mr. Grinstein had extensive
21 contacts with the City of Portland and the Port of Portland on issues ranging from economic
22 development to export facilities. In 1994, Mr. Grinstein played a key role in arranging for Tri-
23 Met to use railroad land for the Westside light rail expansion.

24 **Tom Walsh.** Mr. Walsh is a longtime citizen of Oregon and a business and civic leader
25 in the areas of transportation, affordable housing, and environmental stewardship. Since 1999,
26 Mr. Walsh has served as President of Tom Walsh & Co., a Portland builder of affordable

1 housing. From 1991 to 1998, Mr. Walsh was General Manager of Tri-Met, a Portland regional
2 transit agency with an annual operating budget of approximately \$168 million and 2,000
3 employees. Mr. Walsh has served many prominent Oregon civic and environmental groups,
4 including as Chairman of the Oregon Roads Finance Committee, Vice Chairman of the Oregon
5 Transportation Commission, Chairman of the Glenn Jackson Scholars Program, Chairman of the
6 Oregon Board of Forestry, and member of the Oregon Land Conservation & Development
7 Commission. In 1991, he was appointed as Oregon’s representative to the Endangered Species
8 Committee for the spotted owl.

9 Each of the three individuals who are Local Applicants has demonstrated an uncommon
10 dedication to the welfare of this region’s citizens. They are committed to ensuring that PGE’s
11 ownership will be responsive and accountable to its customers and the citizens of this State.

12 **2. The TPG Applicants**

13 The TPG Applicants will collectively exercise 5% of the voting membership interests in
14 Oregon Electric and therefore will become affiliated interests of PGE after the Proposed
15 Transaction is completed.¹¹ Together, the TPG Applicants will provide approximately 79.9% of
16 the equity capital necessary for Oregon Electric to acquire PGE.¹²

17 The TPG Applicants are private equity funds managed by TPG, which is one of
18 America’s leading private equity management firms. TPG manages investments on behalf of
19 many of the country’s largest public and private pension funds, university endowments, and
20 other investors. For example, the Oregon Public Employees Retirement Fund (“OPERS”) has
21 invested with TPG since the firm’s inception in 1993 and is the single largest investor in TPG-

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23
24 ¹¹ See ORS § 757.015 (defining “affiliated interest” to include entities in any chain of successive ownership of five percent or more of a utility’s voting securities).

25 ¹² The exact apportionment of investment between TPG Partners III, L.P. and TPG Partners IV, L.P. is not known at
26 this time. It is possible that TPG Partners III, L.P. may end up not investing at all. However, as TPG Partners III, L.P. and TPG Partners IV, L.P. are both managed by TPG, this would not result in a substantive change to this Application.

1 managed funds. As a result, pensioners in Oregon are among the people who will benefit from
2 TPG's investments. A breakdown of investors in TPG Applicants is attached as Exhibit 12.

3 Essentially, TPG's role is to help its investors diversify their investment risks so that they
4 are not investing solely in the public stock and bond markets. That in turn provides the pension
5 funds and TPG's other investors with resources to meet their obligations to make promised
6 payments to retirees and other beneficiaries.

7 TPG has significant experience in successfully investing in quality companies across a
8 variety of industries, including airlines, financial services, technology, and healthcare. Its
9 current portfolio consists of approximately 30 companies, which collectively employ
10 approximately 250,000 employees and generated combined revenues of \$36 billion in 2003.
11 Further background on certain of TPG's investments and recent news articles on the firm are
12 included in Exhibits 13 and 14, respectively. A list of companies in which the TPG Applicants
13 have an ownership interest of 5% or more of the voting securities is attached as Exhibit 15.

14 Since its founding, TPG has established a reputation for investing in high quality
15 businesses across many industries, some of which have temporarily been in troubled or
16 transitional circumstances. TPG's capital and sponsorship, coupled with hard work and active
17 Board involvement, have helped many such companies stabilize and improve their performance
18 by refocusing on their core values and mission.

19 TPG is not a holding company or a conglomerate. Each of the companies in which it
20 invests is separately capitalized, run by committed local management, and overseen by
21 dedicated, top-quality boards of directors. Once TPG has acquired a business, its goal is to give
22 that business the financial and organizational tools it needs to be successful. TPG typically
23 focuses on improvements in customer service, product enhancements, sound capital investment,
24 stable labor relations, and recruiting first-class board members to provide strategic advice. The
25 nature of those initiatives is such that they are necessarily made over many years. Accordingly,
26 TPG takes a long-term perspective in making its investments.

1 The TPG Applicants will contribute to PGE directly by having two of TPG’s principals
2 on PGE’s Board of Directors. Indirectly, the resources of TPG’s other principals and
3 professionals, as well as its informal network of advisory professionals, will be available to help
4 the PGE Board at no cost to PGE. David Bonderman and Kelvin Davis will serve on PGE’s
5 Board. Detailed biographies of Messrs. Bonderman and Davis are included in Exhibit 16. In
6 brief, their backgrounds are as follows:

7 **David Bonderman.** Mr. Bonderman is a founder of TPG and serves as a principal and
8 general partner of the firm. Prior to forming TPG in 1993, Mr. Bonderman was Chief Operating
9 Officer of the Robert M. Bass Group, Inc. (“RMBG,” now doing business as Keystone, Inc.), the
10 investment arm of the Robert Bass family that is located in Fort Worth, Texas. Prior to joining
11 RMBG in 1983, Mr. Bonderman was a partner in the law firm of Arnold & Porter in
12 Washington, D.C., where he specialized in corporate, securities, bankruptcy, and antitrust
13 litigation. Mr. Bonderman has served on the boards of numerous public and private companies,
14 including Continental Airlines, Washington Mutual Savings Bank, Denbury Resources, and
15 Seagate Technology, among many others. He is a strong advocate of environmental causes and
16 serves on the Boards of the Wilderness Society, the Grand Canyon Trust, the World Wildlife
17 Fund, and the American Himalayan Foundation.

18 **Kelvin Davis.** Mr. Davis is a partner at TPG focusing on investments in the electric
19 power sector and other general industries. Prior to joining TPG in 2000, Mr. Davis was
20 President and Chief Operating Officer of Colony Capital, Inc., a private international real estate
21 investment firm. He also has served as a principal of RMB Realty, Inc., the real estate
22 investment vehicle of Robert M. Bass, and he has worked for Goldman, Sachs & Co., an
23 investment bank, and the Trammell Crow Company, a real estate firm. Mr. Davis has served on
24 the board of directors of two publicly traded companies and several private companies, including
25 Kraton Polymers LLC, Hotwire, Inc., DS Waters, L.P., Crestline Hotels and Resorts, and
26 Franchise Finance Corporation of America, among others. Mr. Davis is past Chairman and a

1 current director of Los Angeles Team Mentoring, Inc., a charitable mentoring organization. He
2 is also on the Board of Overseers at the Huntington Library, Art Collections and Botanical
3 Gardens.

4 **3. *The Passive Investors***

5 The Passive Investors will contribute approximately 19.6% of the equity that Oregon
6 Electric requires to complete the Proposed Transaction, but they will not acquire any voting
7 membership interest or seats on the Oregon Electric or PGE Board of Directors. Accordingly,
8 they will not be affiliated interests of Oregon Electric or exercise substantial influence over the
9 policies and actions of PGE. The Gates Foundation is a Seattle-based charity with an
10 endowment of approximately \$24 billion. The Gates Foundation makes grants to help improve
11 health care in developing nations, to extend education and learning opportunities to the
12 underserved in the United States, and to improve the quality of life for challenged families in the
13 Pacific Northwest. Within Oregon and Washington, the Gates Foundation has made grants to
14 non-profit organizations that provide assistance to at-risk populations through community grants,
15 among other programs. In 2002, the Gates Foundation made grants of nearly \$1 billion,
16 including \$122 million to charities in the Pacific Northwest. The Gates Foundation has
17 committed more than \$474 million to organizations and programs in the Pacific Northwest since
18 its inception in 1994, including community grants as well as grants that support its small high
19 schools initiative and its library program. The Gates Foundation's endowment is invested in a
20 diversified portfolio, part of which is directed to making private investments. The Gates
21 Foundation is a long-term investor, and its assets and the return on its assets are used solely to
22 fund its operations and charitable activities and grants.

23 OCM is a private equity fund with in excess of \$1 billion in committed capital that is
24 managed by Oaktree Capital Management, LLC ("Oaktree"). Through its private equity funds,
25 Oaktree makes long-term investments across a variety of sectors. In particular, Oaktree has
26 made numerous prior private equity investments in the energy and power sector. Founded in

1 1995, Oaktree is a private investment firm with over \$27 billion committed to its management.
2 OPERS has been an investor in Oaktree's various funds since 1995 and is an investor in the
3 OCM Principals Opportunity Fund III, L.P. The Subscription Agreements between Oregon
4 Electric and each of the Passive Investors are attached as Exhibit 17.

5 **B. Applicants' Reasons for Investing in PGE**

6 ***1. TPG Applicants***

7 Since its founding in 1993, TPG has dedicated significant resources to understanding
8 specific industries and the macroeconomic forces that affect them. In certain cases, TPG looks
9 for industries benefiting from positive intermediate and long-term dynamics even though they
10 may currently be experiencing tough times. Often, public market investors may not be anxious
11 to invest in these types of industries, given the perception of near-term challenges. In recent
12 years, one of the industries on which TPG has focused is the electric power industry. The
13 uncertainty created by deregulation and the overhang of the 2000-2001 power market crisis
14 generally have made companies in the industry unattractive to investors.

15 It was well known in the marketplace that Enron was interested in selling PGE, even
16 prior to Enron's bankruptcy. Subsequent to the bankruptcy filing in December 2001, Enron
17 retained Blackstone, a New York-based investment banking firm, to widely market several of
18 Enron's most significant assets, including PGE. In the context of this very public and visible
19 marketing campaign, TPG expressed interest in the utility and began discussions with Enron and
20 PGE management in the fall of 2002. After almost a year of research and due diligence on PGE
21 and extensive negotiations, TPG announced a definitive agreement to acquire the utility on
22 November 18, 2003. Subsequently, the Bankruptcy Court conducted an overbid process in
23 which anyone who wanted to purchase PGE was afforded an opportunity to submit a bid. None
24 were submitted. On February 5, 2004, the Bankruptcy Court issued an approving order
25 authorizing Enron to sell the PGE shares to Oregon Electric, (i) free and clear of Enron's
26

1 creditors' claims and (ii) enjoining any person from interfering with the sale of PGE shares to
2 Oregon Electric. A copy of the order is attached as Exhibit 18.

3 As part of its due diligence, TPG found that PGE is a fundamentally sound utility with
4 talented and dedicated employees, a high-quality service territory, well-maintained generation
5 assets, and a long track record of solid customer service. In spite of its strengths, however, PGE
6 has been facing real challenges. First, the company has been weathering a difficult period in the
7 industry. The unprecedented events in the power markets of the summers of 2000-2001 (and the
8 fundamental challenges they represented) significantly increased energy costs and necessitated
9 significant and abrupt increases in rates throughout the Western United States, which has had
10 unfortunate implications for many of PGE's customers. Notwithstanding PGE's ability to pass
11 through some of its power acquisition costs to customers, the utility's financial performance has
12 been severely impacted by these industry conditions, many of which continue to persist. These
13 difficulties have been compounded by a difficult economic environment in Oregon, which has
14 suffered a more protracted decline than perhaps any other state.

15 Moreover, PGE has been facing significant challenges brought on by the Enron
16 bankruptcy. With its corporate parent bankrupt and involved in complex legal proceedings, and
17 with devastating losses to its employees' retirement funds, PGE's reputation has been tarnished
18 and its management forced to grapple with issues far removed from PGE's core mission of
19 generating, transmitting and distributing energy to its customers.

20 In spite of these substantial challenges, PGE has been able to continue to serve its
21 customers, but it has done so amidst significant distractions. After serious consideration and
22 analysis, TPG concluded that its institutional knowledge and expertise, coupled with a dedicated
23 board of directors bringing long-term strategic guidance in collaboration with senior
24 management, could help PGE meet future challenges. In particular, TPG determined that by
25 removing PGE from the Enron estate and providing strong Board leadership, it could help PGE
26 to better-position itself to weather the current turmoil in the industry and ultimately experience

1 renewed growth and strength. Importantly, TPG determined that it could help PGE to achieve
2 these goals only in conjunction with strong local leadership that would better understand the
3 unique challenges facing PGE's customers and the region. This led to Neil Goldschmidt, Jerry
4 Grinstein and Tom Walsh partnering with TPG to help lead PGE.

5 **2. Local Applicants**

6 While the Local Applicants have diverse backgrounds and experiences, they are all
7 passionate about the welfare of the Pacific Northwest region and its citizens.
8 Messrs. Goldschmidt, Grinstein and Walsh understand that a strong and healthy utility is critical
9 not only to the customers of the utility, but also to the economic welfare of the state. It is for this
10 reason that they have decided to personally invest in and help lead PGE.

11 First and foremost, they look forward to the opportunity as Board Chairman and directors
12 to help management return PGE to a singular focus on its core business of providing safe,
13 reliable and efficient electric service to its customers. Second, the Local Applicants view this as
14 an opportunity to reinvigorate a spirit of partnership between the utility and its existing and
15 potential business customers in order to foster economic growth in Oregon.

16 The Local Applicants believe that the combination of strong, local leadership and
17 national relevant business expertise on the Board will lead to thoughtful strategic decision-
18 making and long-term planning that will result in a stable, first-class utility providing safe,
19 reliable and efficient electric service to its customers. When that goal has been achieved, they
20 are confident that PGE's future will be assured.

21 **C. Description of the Transaction**

22 **1. Acquisition of PGE by Oregon Electric**

23 Oregon Electric will acquire 100% of the issued and outstanding common stock of PGE
24 for a base purchase price of \$1.25 billion. In addition, Oregon Electric will pay to Enron an
25 amount equal to any change in retained earnings from January 1, 2003 through the closing date.
26 It currently is estimated that total cash due Enron at closing will be approximately \$1.4 billion.

1 (a) *Transaction Financing*

2 Oregon Electric will need approximately \$1.471 billion to fund the purchase price and
3 fees and expenses associated with the transaction. Funds will be made available from a
4 combination of equity capital, debt financing, and a dividend from PGE at the time of closing.

5 *Equity.* The Applicants and the Passive Investors have committed to invest
6 approximately \$525 million in equity in Oregon Electric, of which the TPG Applicants will
7 provide approximately 79.9%. TPG currently has over \$6 billion in committed capital that is
8 available for investments such as this one. The Passive Investors will invest approximately \$100
9 million. The Local Applicants have committed to invest, through Managing Member LLC,
10 approximately \$2.5 million and will meet this obligation from their own resources.

11 *Debt.* Credit Suisse First Boston (“CSFB”), a reputable investment bank with substantial
12 experience in utility sector financings, together with other banks, will arrange for Oregon
13 Electric to borrow approximately \$582 million of senior secured term loan facilities (“Term
14 Loans”) with maturities ranging from 4 to 9 years; and approximately \$125 million of senior
15 unsecured notes (the “Notes”), which will have a 10-year term. In addition, Oregon Electric will
16 arrange to put a \$100 million revolving credit facility in place at Oregon Electric at close. The
17 debt financing will be raised from a combination of public and private financial institutions.

18 TPG has raised over \$30 billion of financing in the capital markets through its portfolio
19 companies over the last ten years, and is confident that it will be able to raise the financing for
20 Oregon Electric. In addition, Oregon Electric has obtained a Highly Confident Letter from
21 CSFB. The Highly Confident Letter states that CSFB is:

- 22 • Highly confident of its ability to arrange a syndicate of lenders willing to provide
23 the entire amount of the credit facilities. CSFB is prepared to continue
24 discussions with Oregon Electric at the appropriate time regarding the terms and
25 conditions upon which it could issue a formal commitment letter with respect to
26 the credit facilities; and

- Highly confident of its ability to arrange for the sale of the Notes through a private sale with customary registration rights and/or public offering.

The Highly Confident Letter as of November 18, 2003 is attached as Exhibit 19.

Subject to certain limitations, the Oregon Electric Term Loans will be secured by a priority lien on, and pledge of, the stock of PGE. It is important to note that even in the extremely unlikely instance whereby the lenders have the right to foreclosure under this pledge, that exercise would be subject to obtaining required regulatory approvals, including that of the Commission.

Dividend. A dividend from PGE to Oregon Electric in the amount of approximately \$240 million will be an additional source of acquisition funds. PGE has a substantial cash position, in large part because it has not paid a cash dividend to Enron since 2001. As of December 31, 2003, PGE had cash on the balance sheet in the amount of \$109 million and a common equity ratio of 55%. Based on current forecasts of net income and cash for 2004, PGE is expected to have approximately \$250 million in cash on the balance sheet by December 31, 2004. At closing, PGE will dividend to Oregon Electric approximately \$240 million to help fund the adjusted purchase price. This would leave a cash balance at PGE of approximately \$10 million, which, in conjunction with the revolving bank loan facility available at PGE (discussed below), will provide ample liquidity for the company. Importantly, the common equity ratio at PGE will remain in excess of the OPUC minimum of 48% common equity ratio after this dividend is made.

A financial overview showing the sources and uses of the transaction and the estimated capitalization for Oregon Electric and PGE can be found at Exhibit 20.

(b) Impact of Financing on PGE

Oregon Electric's total capitalization at closing on a stand-alone basis is estimated to be approximately \$1.232 billion, comprised of \$525 million of equity and \$707 million of funded

1 debt for a pro forma debt to total capitalization ratio of 57%. The capitalization of PGE will
2 remain above the 48% common equity ratio required by this Commission.

3 Oregon Electric's source for servicing its acquisition debt will be the dividends from
4 PGE. Based upon forecasts completed by Applicants, PGE will be able to pay approximately
5 \$80 to \$100 million of annual dividends to Oregon Electric. These forecasts incorporate
6 budgeted capital expenditures to support reinvestment in PGE infrastructure as well as budgeted
7 operations and maintenance expenses. This will translate into over \$250 million of paydown of
8 debt principal over the first five years after closing (*i.e.*, 2005 through 2009). In the event of a
9 timing difference between receipt of dividends from PGE and debt service obligation under the
10 Term Loans and Notes, Oregon Electric will have a \$100 million senior secured revolving credit
11 facility ("Revolver") available. The Revolver will be largely undrawn at the closing of the
12 purchase, but subsequently would be available for liquidity purposes, such as bridging possible
13 timing differences between cash disbursements (*e.g.*, debt service obligations) and cash receipts
14 (*i.e.*, dividends from PGE). The Revolver will be secured by a pledge of PGE stock in the same
15 manner the Term Loans will be secured. Oregon Electric does not intend to pay dividends to its
16 members. Rather, dividends from PGE to Oregon Electric will be used to service and pay down
17 Oregon Electric's debt.

18 Forecasts indicate that at closing PGE will have a common equity ratio that is higher than
19 the minimum capital equity ratio of 48% approved by the Commission. The Applicants assumed
20 that PGE would continue to be regulated at a pro forma common equity ratio of 48% for
21 purposes of determining the cash dividends to its parent company. The Applicants assumed that
22 PGE maintains a minimum \$10 million cash balance, as well as a constant debt capital structure
23 (*i.e.*, PGE will refinance any maturing debt). The combination of a starting pro forma common
24 equity ratio of approximately 49% and those assumptions yields a projected common equity ratio
25 that remains above 48% throughout the forecast period.
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1 PGE's long-term debt and preferred securities will remain in place. The utility's \$150
2 million revolving credit facility will be refinanced with a new unsecured \$250 million Revolver.
3 Because PGE's Revolver is expected to have a term that is longer than one year, the Commission
4 will be asked to approve this facility concurrent with change of ownership.¹³ Oregon Electric
5 intends to manage short-term cash requirements at PGE in much the same manner as those
6 requirements are currently managed.

7 No assets of PGE will be pledged to secure loans of Oregon Electric. To be perfectly
8 clear—the utility itself will not be responsible for those debts, and its assets will not be pledged
9 as part of the financing of the purchase, but the stock of PGE held by Oregon Electric will be
10 pledged to secure the loans. Oregon Electric expects PGE's corporate credit rating to remain
11 investment grade.

12 **2. Oregon Electric's Plan**

13 As stated in the Introduction, Oregon Electric's plan is simple and straightforward: make
14 PGE's core business of providing safe, reliable and efficient electric service to its customers its
15 sole focus. By helping to guide PGE through a difficult and challenging period in the electric
16 industry, Oregon Electric will help prepare PGE for a renewed period of stability and health.
17 The following sections discuss Oregon Electric's intentions with respect to the board of
18 directors, executive management, and specific operational commitments.

19 *(a) Board of Directors*

20 Upon completion of the Proposed Transaction, all current members of PGE's Board of
21 Directors will resign and a new board of directors will assume leadership. The Board will
22 include between 10 and 14 individuals. These individuals will bring firsthand knowledge and a
23 keen understanding of the current and potential needs and concerns of the consumers of
24 electricity in the State of Oregon, as well as a thorough understanding of the challenges facing
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26 ¹³ It has been agreed between Oregon Electric and Enron that PGE will make a separate application to the Commission seeking authorization to approve the Revolver amount. This is not a condition to closing.

1 the region and the issues of importance to Oregon's citizens. Additionally, the new board
2 members will bring strong business expertise and insight that will allow the Board to provide
3 strategic guidance, including long-term resource planning and prudent oversight. A board of
4 directors consisting of individuals who possess these qualifications will ensure that the Board
5 serves the needs of the company and its customers.

6 As discussed above, Neil Goldschmidt will become Chairman of the Board and Jerry
7 Grinstein and Tom Walsh will be Board members. Two of TPG's partners, David Bonderman
8 and Kelvin Davis, will also join the Board. The balance of the Board will include PGE's Chief
9 Executive Officer, other prominent Oregonians, national business leaders, and energy industry
10 executives. The Board always will include at least five members with Oregon backgrounds. A
11 diagram of the proposed Board structure for PGE is included in Exhibit 21.

12 *(b) PGE's Management*

13 Oregon Electric believes that PGE is a well-run company, benefiting from the significant
14 tenure of its executive team and the dedication of its 2,700 employees. It is expected that Peggy
15 Fowler, PGE's Chief Executive Officer, and other members of executive management will retain
16 their positions after the closing of the Proposed Transaction. Consistent with customary
17 corporate governance practices, subsequent to the closing of the Proposed Transaction and
18 formation of PGE's new board of directors, the Board will be responsible for all decisions
19 regarding the retention of executive management.

20 *(c) Customer Service*

21 PGE has a strong record of success in customer service, receiving high marks from
22 customers for the value of customer service that exceed the national and regional averages.
23 Oregon Electric admires PGE's achievements in this area and is committed to maintaining
24 PGE's record and utilizing TPG's existing strengths to improve it where possible.
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1 (d) *Safety*

2 Oregon Electric understands the critical importance of community, employee and public
3 safety and is committed to continuing PGE’s record in this regard. Oregon Electric notes that
4 both PGE’s Boardman and Coyote Springs generating plants have received the SHARP award
5 and demonstrate success in employee safety initiatives.

6 (e) *System Operations and Investment*

7 Oregon Electric pledges to maintain and enhance PGE’s excellent record in this area.
8 PGE’s record in system operations is among the best in Oregon. PGE has consistently exceeded
9 the distribution and transmission benchmarks set for it in the safety and service quality program
10 the Commission adopted as part of approving the merger with Enron in 1997. Customers of all
11 classes give PGE high marks for service restoration and attention to service quality, which is of
12 particular importance to a growing number of businesses. The operating records of PGE’s
13 generating plants are also excellent. PGE has continued to invest in all parts of its system,
14 upgrading its generating plants and its distribution and transmission network. PGE has solid
15 practices for planning, designing, operating, and maintaining its system.

16 (f) *Energy Efficiency, Renewable Resources, and the Environment*

17 Oregon Electric believes that PGE has a good record in all of these areas. Under the
18 direction of Oregon Electric, PGE will continue to support the efforts of the Energy Trust of
19 Oregon to invest wisely in energy efficiency and renewable resources. PGE will also maintain
20 its focus on meeting all applicable environmental standards. Oregon Electric, through the
21 leadership of its Board, looks forward to enhancing PGE’s performance in environmental, energy
22 efficiency, and renewable resource areas.

23 (g) *Restructuring*

24 Oregon Electric will continue PGE’s efforts to facilitate the development of direct access
25 in Oregon, subject to the restrictions placed by the Legislature in SB 1149 and SB 3633. Oregon
26 Electric believes that additional customer choices contribute to a strong local economy.

1 Importantly, the “net benefit” standard is not restricted to purely economic
2 considerations, but incorporates the “total set of concerns” presented by a specific Application.
3 Similarly, a showing of “no harm” need not be reduced to monetary terms. In short, the
4 Commission has stated that each transaction must be assessed on a case-by-case basis and there
5 is no requirement that benefits must come in monetary terms.¹⁶

6 **B. Benefits to PGE’s Customers**

7 The Proposed Transaction offers significant, tangible benefits to PGE customers and the
8 public at large. These benefits include ownership certainty, a strong local voice, a board making
9 thoughtful decisions about strategic direction, long-term resource planning, ongoing investment
10 in the business. Taken as a whole, these benefits exceed the statutory standard set forth in
11 ORS § 757.511 and provide ample reason for this Commission to find that the Proposed
12 Transaction serves PGE’s customers in the public interest.

13 **1. *Unified, Certain, and Stable Ownership***

14 The Enron bankruptcy has left PGE with legal liabilities, management distractions, and
15 an uncertain ownership outlook. The Proposed Transaction will bring an emphatic and expedient
16 end to this uncertainty. This certain and stable ownership of the Applicants will benefit PGE’s
17 customers and the public at large. Electricity is a crucial service, and a stable, successful utility
18 is an attractive regional asset that will help draw businesses and jobs to Oregon. In addition,
19 PGE’s headquarters will stay in Portland, jobs will stay in Oregon, and the company will
20 continue its charitable leadership in the community.

21 **2. *Local Participation on the Board***

22 Oregon Electric will appoint a board of directors that will include substantial
23 representation by prominent local citizens. The proposed Chairman of PGE’s Board of Directors
24 is a dedicated Oregonian who is knowledgeable about and sensitive to the critical issues facing
25 this State. The Local Applicants, who have a long history of public service and commitment to
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¹⁶ *Id.*

1 public causes, will ensure that PGE’s new board of directors is aware of and responsive to the
2 concerns and needs of its customers. Additionally, Oregon Electric pledges that PGE’s Board
3 will always be Oregon-focused, with a minimum of five Oregonians on the Board at any one
4 time. Finally, as a further indication of its local commitment, Oregon Electric pledges to
5 continue PGE’s strong tradition of philanthropy.

6 **3. *Experience in Helping Companies Through Transitions***

7 TPG Applicants bring to this transaction considerable skill and expertise in helping
8 companies to manage difficult transitions and challenging industry circumstances, while
9 planning prudently to meet long-term needs. They will provide invaluable experience and
10 expertise to help PGE management navigate the present industry turmoil. Local Applicants will
11 bring additional management expertise, as well as their own perspective, sensitivity, and deep-
12 seated commitments to Oregon.

13 **4. *Long-Term Planning to Secure Resources on a Cost-Effective Basis***

14 Through the considerable resources of its first-class board members, Oregon Electric will
15 be able to make the best possible decisions regarding long-term planning. Long-term planning is
16 one of the most critical decisions a corporate board makes. It is particularly important here,
17 given PGE’s projected long-term gap between generation resources and demand. PGE’s
18 management has been working diligently on these issues and will benefit from the guidance and
19 direction of a strong board in making critical decisions that will impact rates over time.

20 **5. *Reinvestment in the Business***

21 Under the guidance of the new board, Applicants will actively reinvest capital in PGE
22 through the maintenance and enhancement of existing assets and the acquisition and
23 development of new resources. As previously noted, dividend forecasts incorporate budgeted
24 capital expenditures and operation and maintenance expenses. The revenue that Oregon Electric
25 receives from PGE generally will be used to service and pay down debt and to pay federal and
26 Oregon state taxes. As a further indication of its commitment to reinvest in the business, Oregon

1 Electric will use excess cash to reduce leverage. The members of Oregon Electric do not plan to
2 take dividend payments.

3 **6. *Simplicity and Transparency***

4 The Proposed Transaction is simple and straightforward. Oregon Electric is not a utility
5 or a conglomerate that intends to integrate PGE into its other operating businesses. Unlike the
6 Enron/PGE merger (UM 814), in this case Oregon Electric is not absorbing any PGE activities
7 (*i.e.*, the PGE trading floor) for which PGE customers may be entitled to compensation, and
8 Oregon Electric is not positioned to use PGE's utility experience to further a competitive agenda
9 or to advance the business of affiliates. Similarly, unlike the Scottish Power/PacifiCorp merger
10 (UM 918), and the proposed Sierra Pacific/PGE merger (UM 967), Oregon Electric neither owns
11 nor operates any other utilities. This transaction will result in a separately capitalized and
12 managed entity. Oregon Electric does not own or operate other utilities and therefore presents no
13 threat of cross-subsidization or affiliate abuses. Moreover, PGE has paid Enron over \$1 million
14 per year for corporate services. Oregon Electric does not intend to allocate any of its expenses to
15 PGE, which will streamline the review process for the Commission now and in the future. Taken
16 as a whole, the Proposed Transaction will allow the Commission to monitor PGE and Oregon
17 Electric in an open and direct manner.

18 **V. CONCLUSION**

19 The Applicants have chosen to invest in PGE because they believe in the future of PGE,
20 the future of the electric industry, and the future of Oregon. Applicants' investment ultimately
21 will be successful only if PGE is successful. PGE's success is dependent on providing safe,
22 reliable and cost-effective energy to its customers. Thus the Applicants' interests are aligned
23 with those of PGE's customers. The Proposed Transaction provides significant benefits to PGE
24 customers and will serve those customers in the public interest.¹⁷

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¹⁷ *Id.*

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Wherefore, Oregon Electric respectfully requests that the Commission enter an Order authorizing the Applicants to acquire the power to exercise substantial influence over the policies and actions of PGE and granting such other approvals as may be necessary or appropriate.

RESPECTFULLY SUBMITTED this 8th day of March, 2004.

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