UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

# FORM 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE QUARTERLY PERIOD ENDED MARCH 31, 1999

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE TRANSITION PERIOD FROM ________________ TO _______________

COMMISSION FILE NUMBER 1-5532-99

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

| | |
|---|---|
| OREGON | 93-0256820 |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |

121 SW SALMON STREET, PORTLAND, OREGON 97204
(Address of principal executive offices) (zip code)

Registrant's telephone number, including area code: (503) 464-8000

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

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of April 30, 1999: 42,758,877 shares of Common Stock, $3.75 par value. (All shares are owned by Enron Corp.)

## TABLE OF CONTENTS

PAGE NUMBER

DEFINITIONS

| | |
|---|---|
| BPA | Bonneville Power Administration |
| Enron | Enron Corp. |
| KWh | Kilowatt-Hour |
| Mill | One tenth of one cent |
| MWh | Megawatt-hour |
| OPUC or the Commission | Oregon Public Utility Commission |
| PGE or the Company | Portland General Electric Company |
| Trojan | Trojan Nuclear Plant |

PART I

PORTLAND GENERAL ELECTRIC COMPANY AND SUBSIDIARIES

CONSOLIDATED INCOME STATEMENT
(Unaudited)

| | THREE MONTHS ENDED MARCH 31, 1999 | 1998 |
|---|---|---|
| | (MILLIONS OF DOLLARS) | |
| OPERATING REVENUES | $299 | $314 |
| OPERATING EXPENSES | | |
| Purchased power and fuel | 100 | 123 |
| Production and distribution | 33 | 34 |
| Administrative and other | 22 | 27 |
| Depreciation and amortization | 39 | 37 |
| Taxes other than income taxes | 17 | 16 |
| Income taxes | 30 | 25 |
| | 241 | 262 |
| NET OPERATING INCOME | 58 | 52 |
| OTHER INCOME (DEDUCTIONS) | | |
| Miscellaneous | 4 | 2 |
| Income taxes | 2 | 1 |
| | 6 | 3 |
| INTEREST CHARGES | | |
| Interest on long-term debt and other | 17 | 17 |
| Interest on short-term borrowings | 2 | 1 |
| | 19 | 18 |
| NET INCOME | 45 | 37 |
| PREFERRED DIVIDEND REQUIREMENT | 1 | 1 |
| INCOME AVAILABLE FOR COMMON STOCK | $ 44 | $ 36 |

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS FOR THE
THREE MONTHS ENDED MARCH 31, 1999 AND 1998
(Unaudited)

| | THREE MONTHS ENDED MARCH 31, 1999 | 1998 |
|---|---|---|
| | (MILLIONS OF DOLLARS) | |
| BALANCE AT BEGINNING OF PERIOD | $356 | $270 |
| NET INCOME | 45 | 37 |
| | 401 | 307 |
| DIVIDENDS DECLARED | | |
| Common stock | 20 | - |
| Preferred stock | 1 | 1 |
| | 21 | 1 |
| BALANCE AT END OF PERIOD | $380 | $306 |

The accompanying notes are an integral part of these consolidated financial statements.

PORTLAND GENERAL ELECTRIC COMPANY AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET
(Unaudited)

| | MARCH 31, 1999 | DECEMBER 31, 1998 |
|---|---|---|
| | (MILLIONS OF DOLLARS) | |
| ASSETS | | |
| Electric Utility Plant - Original Cost | | |
| Utility plant (includes Construction Work in Progress of $35 and $35) | $3,207 | $3,182 |
| Accumulated depreciation and amortization | (1,396) | (1,363) |
| | 1,811 | 1,819 |
| OTHER PROPERTY AND INVESTMENTS | | |
| Contract termination receivable | 93 | 95 |
| Receivable from parent | 96 | 97 |
| Nuclear decomissioning trust, at market value | 66 | 72 |
| Corporate owned life insurance, less loans of $30 and $30 | 65 | 63 |
| Miscellaneous | 16 | 15 |
| | 336 | 342 |
| CURRENT ASSETS | | |
| Cash and cash equivalents | 5 | 4 |
| Accounts and notes receivable | 123 | 135 |
| Unbilled and accrued revenues | 40 | 45 |
| Inventories, at average cost | 31 | 28 |
| Prepayments and other | 48 | 31 |
| | 247 | 243 |
| DEFERRED CHARGES | | |
| Unamortized regulatory assets | 721 | 731 |
| Miscellaneous | 27 | 27 |
| | 748 | 758 |
| | $3,142 | $3,162 |
| CAPITALIZATION AND LIABILITIES | | |
| Capitalization | | |
| Common stock equity | | |
| Common stock, $3.75 par value per share, 100,000,000 shares authorized; 42,758,877 shares outstanding | $ 160 | $ 160 |
| Other paid-in capital - net | 480 | 480 |
| Retained earnings | 380 | 356 |
| Cumulative preferred stock | | |
| Subject to mandatory redemption | 30 | 30 |
| Long-term obligations | 959 | 951 |
| | 2,009 | 1,977 |
| CURRENT LIABILITIES | | |
| Accounts payable and other accruals | 132 | 145 |
| Accrued interest | 15 | 11 |
| Dividends payable | 1 | 1 |
| Accrued taxes | 15 | 35 |
| | 163 | 192 |
| OTHER | | |
| Deferred income taxes | 351 | 351 |
| Deferred investment tax credits | 37 | 39 |
| Trojan decommissioning and transition costs | 263 | 274 |
| Unamortized regulatory liabilities | 224 | 237 |
| Miscellaneous | 95 | 92 |
| | 970 | 993 |
| | $3,142 | $3,162 |

The accompanying notes are an integral part of these consolidated financial statements.

PORTLAND GENERAL ELECTRIC COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOW
(Unaudited)

| | THREE MONTHS ENDED MARCH 31, 1999 | 1998 |
|---|---|---|
| | (MILLIONS OF DOLLARS) | |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Reconciliation of net income to net cash provided by (used in) operating activities | | |
| Net Income | $ 45 | $ 37 |
| Non-cash items included in net income: | | |
| Depreciation and amortization | 39 | 37 |
| Deferred income taxes | (3) | - |
| Changes in working capital: | | |
| Decrease in receivables | 16 | 12 |
| (Decrease) in payables | (31) | (39) |
| Other working capital items - net | (17) | (11) |
| Other-net | (2) | 3 |
| NET CASH PROVIDED BY OPERATIING ACTIVITIES | 47 | 39 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Capital expenditures | (29) | (31) |
| Other-net | (3) | (2) |
| NET CASH USED IN INVESTING ACTIVITIES | (32) | (33) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Repayment of long-term debt | (26) | - |
| Issuance of long-term debt | 35 | - |
| Dividends paid | (21) | (1) |
| Other-net | (2) | (4) |
| NET CASH USED IN FINANCING ACTIVITIES | (14) | (5) |
| INCREASE IN CASH AND CASH EQUIVALENTS | 1 | 1 |
| CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD | 4 | 3 |
| CASH AND CASH EQUIVALENTS, END OF PERIOD | $ 5 | $ 4 |
| Supplemental disclosures of cash flow information | | |
| Cash paid during the period: | | |
| Interest, net of amounts capitalized | $ 10 | $ 14 |
| Income taxes | 54 | 40 |

The accompanying notes are an integral part of these consolidated financial statements.

PORTLAND GENERAL ELECTRIC COMPANY AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

Note 1 - Principles of Interim Statements

The interim financial statements have been prepared by PGE and, in the opinion of management, reflect all material adjustments which are necessary for a fair statement of results for the interim period presented. Certain information and footnote disclosures made in the last annual report on Form 10-K have been condensed or omitted for the interim statements. Certain costs are estimated for the full year and allocated to interim periods based on the estimates of operating time expired, benefit received or activity associated with the interim period. Accordingly, such costs are subject to year-end adjustment. It is PGE's opinion that, when the interim statements are read in conjunction with the 1998 Annual Report on Form 10-K, the disclosures are adequate to make the information presented not misleading.

RECLASSIFICATIONS - Certain amounts in prior years have been reclassified to conform to current year presentation.

NOTE 2 - LEGAL MATTERS

TROJAN INVESTMENT RECOVERY - On June 24, 1998, the Oregon Court of Appeals ruled that the OPUC does not have the authority to allow PGE to recover a return on its undepreciated investment in the Trojan generating facility. The court upheld the OPUC's authorization of PGE's recovery of its undepreciated investment in Trojan.

The Court of Appeals decision was a result of combined appeals from earlier circuit court rulings. In April 1996, a Marion County Circuit Court judge ruled that the OPUC could not authorize PGE to collect a return on its undepreciated investment in Trojan, contradicting a November 1994 ruling from the same court upholding the OPUC's authority. The 1996 ruling was the result of an appeal of PGE's 1995 general rate order which granted PGE recovery of, and a return on, 87 percent of its remaining investment in Trojan.

On August 26, 1998, PGE and the OPUC filed petitions for review with the Oregon Supreme Court, supported by amicus briefs filed by three other major utilities seeking review of that portion of the Oregon Court of Appeals decision relating to PGE's return on its undepreciated investment in Trojan.

Also on August 26, 1998, the Utility Reform Project filed a Petition for Review with the Oregon Supreme Court seeking review of that portion of the Oregon Court of Appeals decision relating to PGE's recovery of its undepreciated investment in Trojan.

On April 12, 1999, the Oregon House of Representatives approved and sent to the Oregon Senate House Bill 3220, a measure that would affirm the OPUC's authority to allow PGE's recovery of a return on its undepreciated investment in Trojan.

PORTLAND GENERAL ELECTRIC COMPANY AND SUBSIDIARIES

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL
CONDITION AND RESULTS OF OPERATIONS

RESULTS OF OPERATIONS

The following review of PGE's results of operations should be read in conjunction with the Consolidated Financial Statements.

Due to seasonal fluctuations in electricity sales, as well as the price of wholesale energy and fuel costs, quarterly operating earnings are not necessarily indicative of results to be expected for calendar year 1999.

PGE does not have a fuel adjustment clause as part of its retail rate structure; therefore, changes in fuel and purchased power expenses are reflected currently in earnings.

1999 COMPARED TO 1998 FOR THE THREE MONTHS ENDED MARCH 31

PGE earned $44 million during the first quarter of 1999 compared to $36 million in 1998. Increased earnings were largely attributable to higher retail energy sales and reduced operating expenses.

Total revenues declined $15 million compared to the first quarter of 1998 due primarily to a reduction in wholesale energy sales, reflecting PGE's decision to limit wholesale trading to those short-term transactions necessary to the efficient management of power supplies required for retail customers. Retail revenues increased $26 million, or 11%, due to an increase in energy sales caused by a 21,000 increase in total customers served and colder weather during the first quarter of 1999. Wholesale revenues decreased $39 million, with a 63% reduction in energy sales partially offset by slightly higher prices than in last year's first quarter. Other operating revenues decreased $2 million.

MEGAWATT-HOURS SOLD (THOUSANDS)

| | 1999 | 1998 |
|---|---|---|
| Retail | 5,178 | 4,621 |
| Wholesale | 1,338 | 3,575 |

Total power costs decreased $23 million, or 19%, due largely to a decline in energy purchases. Decreased purchases made to support PGE's wholesale sales were partially offset by increased generation costs to serve increased retail load. The average price of purchased power was comparable to the first quarter of 1998 as both firm and spot market prices changed only slightly. Generation approximated last year's first quarter and accounted for 35% of total load, up from 31% last year.

MEGAWATT/VARIABLE POWER COSTS

| | Megawatt-Hours (thousands) | | Average Variable Power Cost (Mills/kWh) | |
|---|---|---|---|---|
| | 1999 | 1998 | 1999 | 1998 |
| Generation | 2,403 | 2,543 | 8.0 | 7.0 |
| Firm Purchases | 3,205 | 5,648 | 16.7 | 16.3 |
| Spot Purchases | 1,196 | 377 | 15.0 | 14.2 |
| Total Send-Out | 6,805 | 8,568 | 15.0* | 14.4* |

(*includes wheeling costs)

Operating expenses (excluding purchased power and fuel, depreciation, and income taxes) decreased $5 million, or 6%, due in part to a reduction in pension accruals as a result of negotiated changes to union pension and Retirement Savings Plan enhancements.

Depreciation and amortization expense increased $2 million, or 5%, due to both normal capital additions and higher amortization of regulatory assets.

CASH FLOW

CASH PROVIDED BY OPERATIONS is used to meet the day-to-day cash requirements of PGE. Supplemental cash is obtained from external borrowings, as needed.

A significant portion of cash from operations comes from depreciation and amortization of utility plant, charges which are recovered in customer revenues but require no current cash outlay. Changes in accounts receivable and accounts payable can also be significant contributors or users of cash.

Cash provided by operating activities totaled $47 million in the first quarter of 1999 as compared to $39 million in the same period last year. The increase reflects higher net income in 1999, adjusted for the net effects of non-cash items included therein.

INVESTING ACTIVITIES consist primarily of improvements to PGE's distribution, transmission, and generation facilities, as well as continued energy efficiency program expenditures. Capital expenditures of $29 million through March 31, 1999 were primarily for the expansion and improvement of PGE's distribution system to support the addition of new customers within PGE's service territory.

FINANCING ACTIVITIES provide supplemental cash for day-to-day operations and capital requirements as needed. PGE relies on commercial paper borrowings and cash from operations to manage its day-to-day financing requirements. During the first quarter of 1999, commercial paper borrowings increased $35 million. In January 1999, the Company retired $24 million of First Mortgage Bonds and in March paid common stock dividends of $20 million to its parent. On April 30, 1999, PGE filed a $200 million shelf registration statement with the Securities and Exchange Commission for the purpose of issuing new long-term debt, the proceeds from which will be used to refund fixed and variable rate securities, reduce short-term debt, and fund planned construction and other expenditures; no debt has been issued under this registration.

The issuance of additional First Mortgage Bonds and preferred stock requires PGE to meet earnings coverage and security provisions set forth in the Articles of Incorporation and the Indenture securing its First Mortgage Bonds. As of March 31, 1999, PGE has the capability to issue preferred stock and additional First Mortgage Bonds in amounts sufficient to meet its capital requirements.

## FINANCIAL AND OPERATING OUTLOOK

### OREGON REGULATORY MATTERS

In late 1997, PGE filed its "Customer Choice" proposal with the Oregon Public Utility Commission (OPUC), designed to give all of its customers a choice of electricity providers as early as 1999. In conjunction with its proposal, PGE initiated the Customer Choice Introductory Program as a one-year pilot to test deregulation readiness by allowing certain customers to buy their power from competing energy service providers; this program terminated as scheduled at the end of 1998, with all participating customers returned to PGE.

In response to PGE's proposal, the OPUC in January 1999 issued an order containing an alternate restructuring proposal significantly different from the fully competitive model proposed by PGE. The proposal recommends that PGE offer customers a limited set of options, including the ability to continue to purchase rate-regulated electricity. Most commercial and industrial customers (those with demand exceeding 30kW) would be able to choose their electricity provider through direct access. Although the order would allow PGE to sell its coal- and gas- fired generation plants, it rejected PGE's request to sell its hydroelectric assets. The Commission's order further requires PGE to refile a new rate case should it choose to adopt the plan recommended by the order, which is also contingent upon the adoption of certain statutory changes by the Oregon Legislature.

The issue of restructuring is currently being addressed by the 1999 Oregon Legislature. On April 20, 1999, the Oregon Senate approved and sent to the House of Representatives Senate Bill 1149, a measure that would give commercial and industrial customers access to competing electricity suppliers and gradually introduce residential customers to competition beginning October 1, 2001. Residential customers could choose between a regulated rate similar to what they now have, a "green" plan that offers energy from renewable resources, or a market rate that would fluctuate with wholesale electricity prices. The measure would give the Commission broad authority to control the pace and structure of deregulation. PGE may support the measure if additional amendments are made.

## RETAIL CUSTOMER GROWTH AND ENERGY SALES

Weather adjusted retail energy sales grew by 4.3 percent for the three months ended March 31, 1999 compared to the same period last year. PGE forecasts retail energy sales growth of approximately 3 percent in 1999. Commercial sales growth remains strong at 5.6% over last year's first quarter; manufacturing sector energy sales have remained flat as the metals and high tech industries return to average growth rates from those experienced in the last two years.

Quarterly Increase in Retail Customers

| | Residential | Commercial/Industrial |
|---|---|---|
| 1Q99 | 3860 | 473 |
| 4Q98 | 5244 | 646 |
| 3Q98 | 3822 | 671 |
| 2Q98 | 4710 | 603 |
| 1Q98 | 2762 | 670 |
| 4Q97 | 3698 | 12 |
| 3Q97 | 3529 | 388 |
| 2Q97 | 4693 | 537 |
| 1Q97 | 3953 | 509 |
| 4Q96 | 5151 | 877 |
| 3Q96 | 3021 | 594 |
| 2Q96 | 3664 | 76 |
| 1Q96 | 3633 | 539 |

RESIDENTIAL EXCHANGE PROGRAM - The Regional Power Act (RPA) was passed in 1980 to reduce power supply and cost inequities between customers of government and publicly-owned utilities, who have priority access to low-cost power from the federal hydroelectric system, and the customers of investor-owned utilities. The RPA created the Residential Exchange Program to ensure that all residential and small farm customers in the region receive similar benefits from the publicly funded federal power system. Exchange program benefits, which averaged in excess of $64 million a year from inception of the program through 1997, are passed directly to PGE's residential and small farm customers in the form of price adjustments contained in OPUC-approved tariffs. In January 1998, the Bonneville Power Administration (BPA) eliminated the Residential Exchange Credit and rates for PGE's residential and small farm customers increased 11.9%. PGE contested this decision and in September 1998 signed a Residential Exchange Termination Agreement with BPA that provides for BPA payments to PGE totaling $34.5 million over the next two years (through September 2000). The agreement further provides that such amount be passed to residential and small farm customers in the form of a tariff-based billing credit, which reduced the previous rate increase to approximately 5.7 percent for all eligible customers through the middle of the year 2001. The current customer credit under the Residential Exchange Program approximates 1% to 2% on the average monthly electricity bill.

## POWER SUPPLY

Hydro conditions in the region are significantly above normal this year. Current projections forecast the January-to-July runoff at 115 percent of normal, compared to 86 percent of normal last year. A significant number of salmon species in the Pacific Northwest have been granted or are being evaluated for protection under the federal Endangered Species Act (ESA). Although the impacts to date have been minimal for PGE and current hydro conditions are favorable, efforts to restore salmon will continue to reduce the amount of water available for generation.

PGE's base of hydro and thermal generating capacity and the surplus of electric generating capability in the Western U.S. provide PGE the flexibility needed to respond to seasonal fluctuations in the demand for electricity both within its service territory and from its wholesale customers.

On November 1, 1998, PGE signed a definitive agreement to sell its 20 percent interest in coal-fired generating units 3 and 4 of the Colstrip power plant, located in eastern Montana. The agreement, subject to both state and federal approval, would transfer ownership of PGE's 322 megawatt interest in the plant to PP&L Global, a subsidiary of PP&L Resources, for $230.4 million. On April 7, 1999, PGE filed an application for approval of the sale with the OPUC; such application includes a $23.2 million (2.3%) retail rate reduction, which would become effective on the date of the sale. Further approval by the Federal Energy Regulatory Commission (FERC) is required for the sale of associated transmission facilities. It is not anticipated that the sale will have an adverse impact on the results of operations.

WHOLESALE MARKETING

Wholesale sales have declined from 1997 and 1998 levels consistent with PGE's plan to participate in the wholesale marketplace primarily to balance its supply of power to meet the needs of its retail customers, manage risk, and administer its long-term wholesale contracts.

TROJAN INVESTMENT RECOVERY

On June 24, 1998, the Oregon Court of Appeals ruled that the OPUC does not have the authority to allow PGE to recover a return on its undepreciated investment in the Trojan generating facility. The court upheld the OPUC's authorization of PGE's recovery of the undepreciated balance of its investment in Trojan.

The Court of Appeals decision was a result of combined appeals from earlier circuit court rulings. In April 1996, a Marion County Circuit Court judge ruled that the OPUC could not authorize PGE to collect a return on its undepreciated investment in Trojan, contradicting a November 1994 ruling from the same court upholding the OPUC's authority. The 1996 ruling was the result of an appeal of PGE's 1995 general rate order which granted PGE recovery of, and a return on, 87 percent of its remaining investment in Trojan.

On August 26, 1998, PGE and the OPUC filed a petition for review with the Oregon Supreme Court, supported by amicus briefs filed by three other major utilities seeking review of that portion of the Oregon Court of Appeals decision relating to PGE's return on its undepreciated investment in Trojan.

Also on August 26, 1998, the Utility Reform Project filed a Petition for Review with the Oregon Supreme Court seeking review of that portion of the Oregon Court of Appeals relating to PGE's recovery of its undepreciated investment in Trojan.

On April 12, 1999, the Oregon House of Representatives approved and sent to the Oregon Senate House Bill 3220, a measure that would affirm the OPUC's authority to allow PGE's recovery of a return on its undepreciated investment in Trojan.

On April 29, 1999, the Oregon Supreme Court accepted the petitions for review of the June 24, 1998, Oregon Court of Appeals decision.

If the Supreme Court were to affirm the Court of Appeals ruling that the OPUC cannot authorize PGE to earn a return on its investment in Trojan, the matter would be referred back to the OPUC. Due to uncertainties in the regulatory process, management cannot predict, with certainty, what ultimate rate making action the OPUC will take regarding PGE's recovery of a rate of return on its Trojan investment.

For further information regarding the legal challenges to the OPUC's authority to grant recovery for PGE's Trojan investment see Part II, Other Information, Item 1. - Legal Proceedings.

YEAR 2000

The Year 2000 problem results from the use in computer hardware and software of two digits rather than four digits to define the applicable year. The use of two digits was a common practice for decades when computer storage and processing was much more expensive than today. When computer systems must process dates both before and after January 1, 2000, two-digit year "fields" may create processing ambiguities that can cause errors and system failures. For example, computer programs that have date-sensitive features may recognize a date represented by "00" as the year 1900, instead of 2000. These errors or failures may have limited effects, or the effects may be widespread, depending on the computer chip, system or software, and its location and function.

The effects of the Year 2000 problem are exacerbated because of the interdependence of computer and telecommunications systems in the United States and throughout the world. This interdependence certainly is true for PGE and PGE's suppliers, trading partners, and customers.

STATE OF READINESS

PGE's Board of Directors has adopted the Enron Corp. Year 2000 plan (the "Plan"), which covers all of PGE's and other Enron Corp. subsidiaries' activities. The aim of the plan is to take reasonable steps to prevent Enron's mission-critical functions from being impaired due to the Year 2000 problem. "Mission-critical" functions are those critical functions whose loss would cause an immediate stoppage of or significant impairment to major business areas (a major business area is one of material importance to Enron's business).

PGE's Year 2000 plan has been assigned to a centralized staff under the direction of a Year 2000 Project Manager, who coordinates the implementation of the Plan within all affected areas of the company. PGE has also engaged outside consultants, technicians and other external resources to aid in implementing the Plan.

PGE is implementing the Plan, which will be modified as events warrant. Under the Plan, PGE will continue to inventory its mission-critical computer hardware and software systems and embedded chips (computer chips with date-related functions, contained in a wide variety of devices); assess the effects of Year 2000 problems on the mission-critical functions of PGE's business; remedy systems, software and embedded chips in an effort to avoid material disruptions or other material adverse effects on mission-critical functions, processes and systems; verify and test the mission-critical systems to which remediation efforts have been applied; and attempt to mitigate those mission-critical aspects of the Year 2000 problem that are not remediated by January 1, 2000, including the development of contingency plans to cope with the mission-critical consequences of Year 2000 problems that have not been identified or remediated by that date.

The Plan recognizes that the computer, telecommunications, and other systems ("Outside Systems") of outside entities ("Outside Entities") have the potential for major, mission-critical, adverse effects on the conduct of PGE's business. PGE does not have control of these Outside Entities or Outside Systems. However, the Plan includes an ongoing process of identifying and contacting Outside Entities whose systems in PGE's judgment have, or may have, a substantial effect on PGE's ability to continue to conduct the mission-critical aspects of its business without disruption from Year 2000 problems. The Plan envisions PGE's attempting to inventory and assess the extent to which these Outside Systems may not be "Year 2000 ready" or "Year 2000 compatible." PGE will attempt reasonably to coordinate with these Outside Entities in an ongoing effort to obtain assurance that the Outside Systems that are mission-critical to PGE will be Year 2000 compatible well before January 1, 2000. Consequently, PGE will work prudently with Outside Entities in a reasonable attempt to inventory, assess, analyze, convert (where necessary), test, and develop contingency plans for PGE's connections to these mission-critical Outside Systems and to ascertain the extent to which they are, or can be made to be, Year 2000 ready and compatible with PGE's mission-critical systems.

It is important to recognize that the processes of inventorying, assessing, analyzing, converting (where necessary), testing, and developing contingency plans for mission-critical items in anticipation of the Year 2000 event are necessarily iterative processes. That is, the steps are repeated as PGE learns more about the Year 2000 problem and its effects on PGE's internal systems and on Outside Systems, and about the effects that embedded chips may have on PGE's systems and Outside Systems. As the steps are repeated, it is likely that new problems will be identified and addressed. PGE anticipates that it will continue with these processes through January 1, 2000 and, if necessary based on experience, into the Year 2000 in order to assess and remediate problems that reasonably can be identified only after the start of the new century.

As of May 7, 1999, PGE is at various stages in implementation of the Plan, as shown in the following table, which lists the status of both mission-critical internal systems (including embedded chips) and Outside Systems. Any notation of "complete" or reference to a "completion date" conveys the fact only that the initial iteration of this phase has been substantially completed. PGE will continue to closely monitor work under the Plan and to revise estimated completion dates for the initial iteration of each listed process.

YEAR 2000 READINESS PLAN

| | MISSION-CRITICAL INTERNAL ITEMS | | MISSION-CRITICAL OUTSIDE ENTITIES | |
|---|---|---|---|---|
| | STATUS | COMPLETION DATE | STATUS | COMPLETION DATE* |
| Inventory | Complete | December 1997 | Complete | October 1998 |
| Assessment | Complete | October 1998 | Complete | November 1998 |
| Analysis | Complete | October 1998 | Complete | November 1998 |
| Conversion | In Process | June 1999 | In Process | June 1999 |
| Testing | In Process | June 1999 | In Process | June 1999 |
| Y2K-Ready | In Process | June 1999 | In Process | June 1999 |
| Contingency Plan | In Process | June 1999 | In Process | June 1999 |

* The June 1999 completion date for Mission-Critical Outside Entities conveys only the date when PGE anticipates it will have evaluated the progress of most Outside Entities with respect to Conversion, Testing, Y2K-Ready, and Contingency Plans.

Completion of mission-critical work is planned for June 30, 1999, with a few exceptions.

COSTS TO ADDRESS YEAR 2000 ISSUES

Under the Plan, PGE currently estimates that it will spend approximately $20-25 million relating to Year 2000 issues, about one-third of which has been spent to date; 1999 expenditures are currently estimated at approximately $10 million. On April 19, 1999, PGE received an accounting order from the OPUC to defer 1999 incremental Y2K costs, to be amortized over a 5-year period beginning January 1, 2000. The order defers to a future proceeding whether PGE will be allowed to recover such costs in rates. PGE anticipates that its costs relating to Year 2000 issues will not have a material adverse effect on its financial condition or results of operations.

Although management believes that its estimates are reasonable, there can be no assurance, for the reasons stated in the "Outlook" section below, that the actual costs of implementing the plan will not differ materially from the estimated costs or that PGE will not be materially adversely affected by Year 2000 issues.

YEAR 2000 RISK FACTORS

REGULATORY REQUIREMENTS. PGE expects to satisfy all requirements of regulatory authorities for achieving Year 2000 readiness. If its reasonable expectations in this regard are in error, the adverse effect on PGE could be material. Outside Entities could force temporary cessation of operations that materially adversely affect PGE.

POTENTIAL SHORTCOMING. PGE estimates that its mission-critical systems will be Year 2000-ready substantially before January 1, 2000. However, there is no assurance that the Plan will succeed in accomplishing its purposes or that unforeseen circumstances will not arise during implementation of the Plan that would materially and adversely affect PGE.

CASCADING EFFECT. PGE is taking reasonable steps to identify, assess, and where appropriate, replace devices that contain embedded chips. Despite these reasonable efforts, there is no assurance that PGE will be able to find and remediate all embedded chips in its systems. Further, there is no assurance that Outside Entities on which PGE depends will be able to find and remediate all embedded chips in their systems. Some of the embedded chips that fail to operate or that produce anomalous results may create system disruptions or failures. Some of these disruptions or failures may spread from the systems in which they are located to other systems in a cascade. These cascading failures may have adverse effects upon PGE's ability to maintain safe operations and may also have adverse effects upon PGE's ability to serve its customers and otherwise to fulfill certain contractual and other legal obligations. The embedded chip problem is widely recognized as one of the more difficult aspects of the Year 2000 problem across industries and throughout the world. PGE believes that the possible adverse impact of the embedded chip problem is not, and will not be, unique to PGE.

THIRD PARTIES. PGE cannot assure that suppliers upon which it depends for essential goods and services will convert and test their mission-critical systems and processes in a timely manner. Failure or delay by all or some of these entities, including U.S. federal, state or local governments, could create substantial disruptions having a material adverse effect on PGE's business.

## CONTINGENCY PLANS

As part of the Plan, PGE is developing contingency plans that deal with two aspects of the Year 2000 problem: (1) that PGE, despite its good-faith, reasonable efforts, may not have satisfactorily remediated all of its internal mission-critical systems; and (2) that Outside Systems may not be Year 2000 ready, despite PGE's good-faith, reasonable efforts to work with Outside Entities. PGE's contingency plans are being designed to minimize the disruptions or other adverse effects resulting from Year 2000 incompatibilities regarding these mission-critical functions or systems, and to facilitate the early identification and remediation of mission-critical Year 2000 problems that first manifest themselves after January 1, 2000.

PGE's contingency plans will contemplate an assessment of all its mission-critical internal information technology systems and its internal operational systems that use computer-based controls. This process will commence in the early minutes of January 1, 2000, and continue for hours, days, or weeks as circumstances require. Further, PGE will in that time frame assess any mission-critical disruptions due to Year 2000-related failures that are external to PGE. The assessment process will cover, for example, loss of electrical power from other utilities; telecommunications services from carriers; or building access, security, or elevator service in facilities occupied by PGE.

PGE plans to file with the Western Systems Coordinating Council by June 15, 1999 its contingency plan related to Mission-Critical Internal Systems (including embedded chips) and Outside Systems. PGE plans to perform additional contingency planning relating to other systems both before and after its June 15, 1999 filing.

PGE's contingency plans will include the creation of teams that will be standing by on the eve of the new millennium, prepared to respond rapidly and otherwise as necessary to mission-critical Year 2000-related problems as soon as they become known. The composition of teams that are assigned to deal with Year 2000 problems will vary according to the nature, mission-criticality, and location of the problem.

## WORST CASE SCENARIO

The Securities and Exchange Commission requires that companies must forecast the most reasonably likely worst case Year 2000 scenario, assuming that the company's Year 2000 plan is not effective. Analysis of the most reasonably likely worst case Year 2000 scenarios PGE may face leads to contemplation of the following possibilities which, though unlikely in some or many cases, must be included in any consideration of worst cases: widespread failure of electrical, gas, and similar supplies by utilities serving PGE; widespread disruption of the services of communications common carriers; similar disruption to means and modes of transportation for PGE and its employees, contractors, suppliers, and customers; significant disruption to PGE's ability to gain access to, and remain working in, office buildings and other facilities; the failure of substantial numbers of PGE's mission-critical information (computer) hardware and software systems, including both internal business systems and systems (such as those with embedded chips) controlling operational facilities such as electrical generation, transmission, and distribution systems; and the failure of Outside Systems, the effects of which would have a cumulative material adverse impact on PGE's mission-critical systems. Among other things, PGE could face substantial claims by customers or loss of revenues due to service interruptions, inability to fulfill contractual obligations, inability to account for certain revenues or obligations or to bill customers accurately and on a timely basis, and increased expenses associated with litigation, stabilization of operations following mission-critical failures, and the execution of contingency plans. PGE could also experience an inability by customers, traders, and others to pay, on a timely basis or at all, obligations owed to PGE. Under these circumstances, the adverse effect on PGE, and the diminution of PGE's revenues, would be material, although not quantifiable at this time. Further in this scenario, the cumulative effect of these failures could have a substantial adverse effect on the economy, domestically and internationally. The adverse effect on PGE, and the diminution of its revenues, from a domestic or global recession or depression also is likely to be material, although not quantifiable at this time.

PGE will continue to monitor business conditions with the aim of assessing and quantifying material adverse effects, if any, that result from the Year 2000 problem.

SUMMARY

PGE has a Plan to deal with the Year 2000 challenge and believes that it will be able to achieve substantial Year 2000 readiness with respect to the mission critical systems that it controls. From a forward-looking perspective, the extent and magnitude of the Year 2000 problem as it will affect PGE, both before and for some period after January 1, 2000, are difficult to predict or quantify for a number of reasons. Among these are: the difficulty of locating "embedded" chips that may be in a great variety of mission-critical hardware used for process or flow control, environmental, transportation, access, communications and other systems; the difficulty of inventorying, assessing, remediating, verifying and testing Outside Systems; the difficulty in locating all mission-critical software (computer code) internal to PGE that is not Year 2000 compatible; and the unavailability of certain necessary internal or external resources, including but not limited to trained hardware and software engineers, technicians and other personnel to perform adequate remediation, verification and testing of PGE systems or Outside Systems. Accordingly, there can be no assurance that all of PGE's systems and all Outside Systems will be adequately remediated so that they are Year 2000 ready by January 1, 2000, or by some earlier date, so as not to create a material disruption to PGE's business. If, despite PGE's reasonable efforts under the Plan, there are mission-critical Year 2000-related failures that create substantial disruptions to PGE's business, the adverse impact on PGE's business could be material. Additionally, Year 2000 costs are difficult to estimate accurately because of unanticipated vendor delays, technical difficulties, the impact of tests of Outside Systems and similar events. Moreover, the estimated costs of implementing the Plan do not take into account the costs, if any, that might be incurred as a result of Year 2000-related failures that occur despite PGE's implementation of the Plan.

## NEW ACCOUNTING STANDARDS

In June 1998, the Financial Accounting Standards Board issued Statement of Accounting Standards (SFAS) No. 133 ("Accounting for Derivative Instruments and Hedging Activities"), to be effective January 1, 2000. SFAS No. 133 establishes accounting and reporting standards requiring that every derivative instrument (including certain derivative instruments embedded in other contracts) be recorded on the balance sheet as either an asset or liability measured at its fair value. The Statement requires that changes in the derivative's fair value be recognized currently in earnings unless specific hedge accounting criteria are met. Special accounting for qualifying hedges allows a derivative's gains and losses to offset related results on the hedged item in the income statement, and requires that a company must formally document, designate and assess the effectiveness of transactions that receive hedge accounting.

SFAS No. 133 is effective for fiscal years beginning after June 15, 1999. A company may also implement the Statement as of the beginning of any fiscal quarter after issuance; however, SFAS No. 133 cannot be applied retroactively. PGE has not yet quantified the impacts of adopting SFAS No. 133 on its financial statements and has not determined the method of its adoption of SFAS No. 133 nor the effect on the accounting for its hedging activities or physical contracts.

## INFORMATION REGARDING FORWARD LOOKING STATEMENTS

This Quarterly Report on Form 10-Q includes forward looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Although PGE believes that its expectations are based on reasonable assumptions, it can give no assurance that its goals will be achieved. Important factors that could cause actual results to differ materially from those in the forward looking statements herein include, but are not limited to, political developments affecting federal and state regulatory agencies, the pace of electric industry deregulation in Oregon and in the United States, environmental regulations, changes in the cost of power, adverse weather conditions, and the effects of the Year 2000 date change during the periods covered by the forward looking statements.

PART II

PORTLAND GENERAL ELECTRIC COMPANY AND SUBSIDIARIES

OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

For further information, see PGE's report on Form 10-K for the year ended December 31, 1998.

CITIZENS' UTILITY BOARD OF OREGON V. PUBLIC UTILITY COMMISSION OF OREGON and UTILITY REFORM PROJECT AND COLLEEN O'NEILL V. PUBLIC UTILITY COMMISSION OF OREGON, Marion County Oregon Circuit Court, the Court of Appeals of the State of Oregon, the Oregon Supreme Court.

On April 12, 1999, the House of Representatives approved and sent to the Oregon Senate House Bill 3220, a measure that would affirm the OPUC's authority to allow PGE's recovery of a return on its undepreciated investment in Trojan.

On April 29, 1999, the Oregon Supreme Court accepted the petitions for review of the June 24, 1998, Oregon Court of Appeals decision.

COLUMBIA RIVER PEOPLE'S UTILITY DISTRICT V PORTLAND GENERAL ELECTRIC COMPANY

On December 1, 1998, the Columbia River People's Utility District (CRPUD) filed an anti-trust complaint in Federal District Court which seeks to overturn a 1984 Judgment and Acquisition Agreement that confirmed PGE's exclusive right to serve Boise Cascade Corporation. The complaint seeks to declare as invalid and unenforceable a provision establishing the amount to be paid by CRPUD upon their condemnation of PGE facilities serving Boise Cascade; it also seeks an injunction barring PGE from enforcing earlier agreements and judgments related to this matter. Attorney fees and costs were sought but no claim was made for monetary damages.

On March 24, 1999, the Court entered Summary Judgment in favor of PGE.

On April 21, 1999, CRPUD filed a Notice of Appeal, with briefing and oral argument to follow. A decision from the Ninth Circuit Court of Appeals is not anticipated until 2000.

PART II

PORTLAND GENERAL ELECTRIC COMPANY AND SUBSIDIARIES

OTHER INFORMATION (CONTINUED)

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

a. Exhibits

| NUMBER | EXHIBIT |
| --- | --- |
| 27 | Financial Data Schedule - UT<br>(Electronic Filing Only) |

b. Reports on Form 8-K

None.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrants have duly caused this report to be signed on their behalf by the undersigned hereunto duly authorized.

PORTLAND GENERAL ELECTRIC COMPANY
(Registrants)

May 7, 1999 By: /s/ Mary K. Turina
Mary K. Turina

Treasurer, Controller and
Chief Accounting Officer
(Principal financial officer and
principal accounting officer)

UT

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED
FROM THE CONSOLIDATED FINANCIAL STATEMENTS FILED ON FORM 10-Q
FOR THE THREE MONTHS ENDED MARCH 31, 1999 FOR PORTLAND GENERAL
ELECTRIC COMPANY AND SUBSIDIARIES (PGE) AND IS QUALIFIED IN ITS
ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

1,000,000

3-MOS

DEC-31-1999

MAR-31-1999

PER-BOOK

1,811

336

247

748

0

3,142

160

480

380

1,020

30

0

818

0

0

140

0

0

0

1

1,133

3,142

299

30

211

241

58

6

64

19

45

1

44

20

16

47

0

0