

**For PGE:**

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**Enron**

Enron is an Oregon corporation. Enron’s full and correct name and business address are as follows:

Enron Corp.  
1400 Smith Street  
Houston, TX 77002

Applicant requests that all notices and correspondence regarding this matter be sent to Enron at the following:

**For Enron:**

Paul J. Kaufman  
Enron Corp.  
121 SW Salmon, 3 WTC  
Portland, OR 97204  
Telephone: (503) 464-7945  
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**With a Copy to:**

Michael M. Morgan  
Tonkon Torp LLP  
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**DESCRIPTION OF THE TRANSACTION**

**General**

NW Natural Holdco, NW Natural, Enron, and Enron Northwest Assets, LLC<sup>1</sup> have entered into a Stock Purchase Agreement, dated October 5, 2001 (the “Purchase Agreement”), under which

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<sup>1</sup> According to the Stock Purchase Agreement, Enron Northwest Assets, LLC held an option to acquire all of the outstanding equity of PGE. The original transaction contemplated that Enron Northwest Assets LLC would exercise its option and then sell PGE to NW Natural Holdco. Rather than Enron Northwest Assets LLC exercising its option to acquire PGE from Enron, NW Natural Holdco will purchase PGE directly from Enron. Enron Northwest Assets LLC is no longer involved in the transaction.

1 NW Natural Holdco will acquire PGE, currently a wholly owned subsidiary of Enron, and PGH II, Inc.,  
2 which is owned by Portland General Holdings, Inc., a wholly owned subsidiary of Enron. The Purchase  
3 Agreement, together with the Agreement and Plan of Merger and Reorganization (the “Merger  
4 Agreement”) and the Securityholders and Registration Rights Agreement (the “Securityholders  
5 Agreement”) are included in this Application as **Appendix 1**. These Agreements contemplate that a  
6 wholly owned subsidiary of NW Natural Holdco will merge with and into NW Natural, with NW  
7 Natural the surviving entity, and with NW Natural becoming a wholly owned subsidiary of NW Natural  
8 Holdco. As a part of the transaction, shares of NW Natural common stock will be converted into  
9 shares of NW Natural Holdco common stock. NW Natural Holdco will then purchase all of PGE’s  
10 common stock from Enron. NW Natural will retain its existing preferred and preference shares and  
11 PGE will retain its preferred stock. Both NW Natural and PGE will retain their existing long-term debt.

12 Following completion of this transaction, PGE and NW Natural will function as separate  
13 operating utility subsidiaries of NW Natural Holdco. NW Natural Holdco, PGE, and NW Natural will  
14 become affiliated interests of one another within the meaning of RCW 80.16.010.

15 **Objectives of the Transaction**

16 This transaction is carefully structured and balanced to achieve four objectives:

- 17 ■ This transaction will create and deliver customer benefits over time.
- 18 ■ This transaction is structured to self-finance the acquisition debt taken on by NW Natural Holdco in  
19 a way that avoids a significant downgrading of PGE and NW Natural debt and allows their debt  
20 ratings to improve over time.
- 21 ■ This transaction is also designed to increase cash flow and value to NW Natural’s shareholders  
22 over time.

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1 the two utilities. Overall, the result will be a lower combined cost structure. In addition, NW Natural is  
2 proposing its own service quality standards (while PGE will abide by its existing service quality  
3 measures); therefore, both utilities will continue to provide outstanding customer service and reliability.

4 There are no specific plans for changes upon completion of the transaction that would have a  
5 significant impact on the policies, management, operations, or rates of either NW Natural or PGE. In  
6 the first year following completion of this transaction, management teams from NW Natural and PGE  
7 will work jointly to create a smooth transition into the new corporate structure, ensuring that both utilities  
8 maintain excellent customer service and safe and reliable operations.

9 **Financial Aspects of the Transaction**

10 NW Natural is Oregon's largest natural gas utility and has considerable financial strength, with  
11 total assets of \$1.279 billion and \$532.1 million in annual revenue for 2000. NW Natural is also one of  
12 the fastest growing natural gas local distribution companies in the nation. In 2000, the company added  
13 more than 22,000 customers, which marked its twelfth consecutive year of growth rates greater than 4  
14 percent. The 4.4 percent growth rate NW Natural achieved in 2000 was nearly three times the national  
15 average for natural gas utilities.

16 NW Natural Holdco will finance the PGE purchase through loans, the issuance of NW Natural  
17 Holdco stock, and the issuance of certain other securities termed FELINE PRIDES<sup>(SM)</sup>.<sup>2</sup> The Purchase  
18 Agreement provides that Enron will sell PGE's issued and outstanding common stock to NW Natural  
19 Holdco. Enron will also sell to NW Natural Holdco the issued and outstanding common stock of PGH  
20 II, Inc. PGH II, Inc. shares are owned by Portland General Holdings, Inc., a wholly owned subsidiary  
21 of Enron.

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<sup>2</sup> FELINE PRIDES<sup>(SM)</sup> is a service mark of Merrill Lynch & Co.  
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1 transaction, not a permanent one. Applicant also believes that operational and other synergies will more  
2 than offset any increase in capital costs.

3 **Affiliated Interests and Organizational Structure**

4 Besides NW Natural Holdco, NW Natural has one remaining wholly owned subsidiary, NNG  
5 Financial Corporation, which in turn has two subsidiaries, Capacity Corp. and KB Pipeline Company.  
6 In 2000, NW Natural sold Canor Energy, Ltd., its Canadian energy exploration and production  
7 subsidiary. The final, post-transaction organizational structure of NW Natural Holdco, NW Natural,  
8 PGE, and PGH II, Inc. is set forth in the diagram in **Appendix 2-f**. **Appendix 5** contains a chart  
9 showing each company's affiliated nonutility businesses.

10 **APPENDICES**

11 The following appendices are attached to and made part of this Application:

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- 13 Appendix 1: (a) Stock Purchase Agreement by and among Enron, Enron Northwest  
14 Assets, LLC, Northwest Natural Gas Company and Northwest Energy  
15 Corporation.
- 16 (b) Agreement and Plan of Merger and Reorganization by and among  
17 Northwest Natural Gas Company, Northwest Energy Corporation, and  
18 Northwest Energy Sub Corp.
- 19 (c) Securityholders and Registration Rights Agreement by and among  
20 Northwest Energy Corporation, Enron Corp., the common stock purchaser, the  
21 Class B stock purchaser, and the FELINE PRIDES purchaser.
- 22 Appendix 2: (a) Diagram of Current Structure.
- 23 (b) Diagram of Merger and Exchange of Shares: Step 1.
- 24 (c) Diagram of Merger and Exchange of Shares: Step 2.
- 25 (d) Diagram of Merger and Exchange of Shares: Step 3.
- 26 (e) Diagram of Final Structure.