

1 our financing, and our finance commitments and credit facilities. Fourth, I describe our  
2 proposed rate benefits plan and financial commitments.

3 **Q: Are there exhibits that accompany your testimony?**

4 A: Yes. Exhibits \_\_\_ (BRD-1) through \_\_\_ (BRD-10) were prepared under my supervision.

5 **STRUCTURE AND TERMS OF THE TRANSACTION**

6 **Q: Please outline the transaction.**

7 A: In its most basic terms, NW Natural is forming a holding company to purchase PGE and  
8 an entity known as “PGH II” from Enron Corp. (“Enron”) for \$1.8 billion and other  
9 consideration. After closing, the new holding company will own NW Natural, PGE, and  
10 PGH II.

11 **Q: Please describe the structure of the transaction.**

12 A: At present, NW Natural is a publicly traded company. Its common stock is listed on the  
13 New York Stock Exchange under the symbol “NWN.” Enron has two subsidiaries that  
14 participate in this transaction: PGE and Portland General Holdings, Inc. The current  
15 structure is shown in a diagram at **Exhibit \_\_\_ (BRD-1)**.

16 In the first step of the transaction, NW Natural will establish NW Natural Holdco  
17 as a holding company. NW Natural will accomplish this as follows: NW Natural has  
18 created NW Natural Holdco as a subsidiary and also has set up a merger subsidiary under  
19 NW Natural Holdco. The merger subsidiary will merge with and into NW Natural, with  
20 NW Natural as the surviving corporation. NW Natural common stock will be converted,  
21 on a 1-for-1 basis, into shares of NW Natural Holdco common stock. As a result, NW  
22 Natural Holdco will own all of the shares of NW Natural. NW Natural Holdco’s  
23 common stock will be registered with the Securities and Exchange Commission and will  
24

1 be listed for public trading on the New York Stock Exchange.

2 In the second step of the transaction, NW Natural Holdco will purchase the  
3 common stock of PGE and PGH II. At present, Enron owns PGE. Portland General  
4 Holdings, Inc., a subsidiary of Enron, owns PGH II. NW Natural Holdco will transfer  
5 cash and securities to Enron and Portland General Holdings, Inc., in exchange for PGE  
6 and PGH II, Inc., respectively. NW Natural Holdco will then own NW Natural, PGE,  
7 and PGH II, and Enron and Portland General Holdings, Inc. will have received cash and  
8 securities.

9 The final structure is shown at **Exhibit \_\_\_\_ (BRD-2)**.

10 **Q: What is the role of PGH II in the transaction?**

11 A: PGH II holds a number of assets or business interests (for example, an interest in a fiber  
12 optics network and a district cooling system under development in Portland) that have  
13 been treated (and accounted for) as non-regulated activities by the Commission. Only a  
14 nominal portion of the total purchase price was treated as the consideration for NW  
15 Natural Holdco's purchase of PGH II. As a subsidiary of NW Natural Holdco rather than  
16 of PGE, PGH II will retain its independent, non-regulated status.

17 **Q: Why does the transaction require a holding company as part of the structure?**

18 A: NW Natural would not have been able to borrow, at the utility level, the amount of  
19 money necessary to buy PGE, without experiencing a reduction in its credit ratings to  
20 below investment grade level. That result would have been a significant detriment to  
21 customers as well as to current investors in NW Natural's debt securities. We were not