8005190 253

PACIFIC POWER & LIGHT COMPANY

and consolidated subsidiaries

1979 ANNUAL REPORT

Notice of the 1980 Annual Meeting of Stockholders, scheduled to be held in Yakima, Washington, on June 11, convening at 1:30 P.M. in the Convention Center, will be mailed to shareholders in May along with proxy statements.

A copy of the Company's Form 10-K report to the Securities & Exchange Commission for 1979 operations is available upon request, without charge. Write to—

John H. Geiger, Senior Vice President
Pacific Power & Light Company
920 S.W. Sixth Avenue
Portland, Oregon 97204
Telephone (503) 243-1122

To Our Stockholders:

During the year 1979 each of the three major components of the Company's overall business — electric, coal and telecommunications — made significant contributions to the Company's overall earnings. Net income from the NERCO, Inc. coal operations leaped from $12,900,000 in 1978 to $28,090,000 in 1979. Operating results for Alascom, Inc. from June 1 and Telephone Utilities, Inc. for the full year combined to generate $8,840,000 of 1979 income. The comparable numbers for income from electric and miscellaneous utilities amounted to $73,340,000 for 1979 compared to $86,260,000 in 1978.

Overall earnings per share were diluted by a 7% increase in the average number of shares outstanding, causing a 5¢ per share decline from $2.51 per share in 1978 to $2.46 per share in 1979. New shares of common and preferred stock sold during the year were required to finance the heavy construction programs and maintain reasonable capital ratios.

The three elements of the Company and the significance of the size of each led your management and the Board of Directors to form a corporate policy group last June with overall management policy responsibilities for the Company's three basic lines of business. In this connection, G. Eldon Drennan was elected President and Executive Officer of Electric Operations and he, along with John H. Geiger, Senior Vice President and Chief Financial Officer; Gerard K. Drummond, President of NERCO, and A. M. Gleason, President of Telephone Utilities, join with me as the corporate policy group performing this function. Our objective is to continue the decentralized nature of these businesses in terms of their day-to-day operations, but at the same time to provide coordination, support services and overall guidance from a group of seasoned executives.

There continued to be formidable obstacles in the path of electric utility operations during 1979. The escalation of inflation and money costs, ever-increasing environmental requirements, regulatory lags and serious supply problems contributed to the difficulties. On the positive side there are signs of increasing public and regulatory appreciation of the necessity for higher rates and a growing awareness of the seriousness of impending electric energy shortages, a problem particularly severe in the Pacific Northwest portion of our service area. You may recall that last year's annual report highlighted this problem. Any steps that the nation and each of us individually can take to slow down the rate of inflation would assure better days ahead for the electric utility business, our customers and for all of us.

Nationally, the coal business is in the doldrums with over 100 million tons of excess annual productive capacity. This results from lower than expected utility load growth and a slowdown in conversions from oil and gas due to conflicts within legislative and regulatory processes and to environmental problems. Nevertheless, NERCO made its largest contribution ever to your Company's overall earnings. With the new Spring Creek mine expected to be in production by the end of this year, NERCO's outlook continues to be favorable. It was the 8th largest U.S. coal producer in 1979.

With the acquisition of Alascom, the long-lines telephone company in Alaska, your Company is the

Executives serving on the Corporate Policy Group are Don C. Frisbee, Chairman and Chief Executive Officer (seated left); G. Eldon Drennan, President and Executive Officer-Electric Operations (seated right); A. M. Gleason, President of Telephone Utilities, Inc., and Executive Officer-Telecommunications (standing left); Gerard K. Drummond, President of NERCO, Inc. (center) and John H. Geiger, Senior Vice President and Chief Financial Officer of PP&L (right).

nation's 6th largest independent telephone/telecommunications company in terms of revenue. Both Alascom and 81%-owned Telephone Utilities enjoyed operating results which exceeded any prior year's earnings. The Alascom purchase was accomplished through a term loan with a group of bankers headed by Morgan Guaranty Trust Company, at an interest rate that moves with the prime rate. The net contribution of Alascom to overall Company earnings was dampened by the sharp rise in the prime rate during the latter part of the year and on into 1980.

By virtue of the diversity in its sources of income, your Company faces the uncertainties of the year 1980 and the start of a new decade from a stronger and broader financial base than was the case a decade ago. We are providing basic services and products that are essential to the economic life and health of the nation and we are blessed with a group of dedicated men and women in the Company's employ and serving on your Board of Directors. We are particularly thankful for the support of our stockholders and other investors. We will be working hard to continue to merit that support.

Sincerely,

Don C. Frisbee

Chairman of the Board
and Chief Executive Officer

TABLE OF CONTENTS PAGE

Revenues, Net Income Increase; Subsidiaries Bolster Earnings

Higher electric rates along with increased energy sales, a significant increase in telecommunications revenues upon the acquisition of a system providing long-lines services for Alaska, and higher earnings of the other subsidiaries helped push consolidated operating revenues and net income to new highs for the Company in 1979.

NERCO, Inc., the wholly-owned coal mining and marketing subsidiary; the 81% owned Telephone Utilities, Inc., and Alascom, Inc., the newly acquired Alaska system, posted improved operating results that added to consolidated net income and highlighted the growing significance of subsidiary operations on prospects for future growth in earnings.

Subsidiaries contributed 99¢ to the per common share earnings of the Company, before full allocation of capital costs, up 44¢ from the prior year's contribution. However, earnings per common share of $2.46 were down 5¢ from 1978 due to increases in the dividend requirements for preferred stock and in the average number of common shares outstanding.

Dividend payments on common stock totaled $1.92, up 6¢ per share over 1978. At the December meeting the Board of Directors increased the January, 1980, quarterly payment to 51¢ per share, an indicated annual rate of $2.04 per share.

Operating results for the electric system were adversely affected by low river flows which reduced generation at hydroelectric plants and necessitated greater reliance on higher cost steam-electric generation and purchases from other utilities. The combination resulted in 35% greater fuel expense and purchased power costs for the year.

Total utility operating revenues amounted to $640,108,000. The increase of 26.4% was primarily due to telecommunications revenues from the acquisition of Alascom, Inc., on June 1. Electric revenues of $487,855,000 were up 7.6%, attributable to higher rates and a near record increase in the number of residential and commercial customers. Water and steam heat revenues were $9,893,000, up 17%.

At the end of the year there were 629,569 electric customers, a gain of 20,841. Even with an extensive Company program urging energy conservation, average residential usage of 13,062 kilowatt-hours was above 1978 by 448 kilowatt-hours. This was attributed to colder than normal weather early in the year. An estimated 43% of residential customers in Oregon, Washington and California utilize electric energy for household space heating.

Utility operating expenses totaled $479,922,000, up 34%. This resulted from greater fuel and purchased power costs, operating expenses of Alascom which were not in the 1978 figures, added maintenance on steam-electric plants and the overall impact of inflation.

Net interest charges, principally on long-term debt, were $101,914,000, up 38%.

Net income was $112,511,000, up 6.4%. After provision for $19,612,000 of preferred stock dividends, higher by 14%, the earnings applicable to the average of 37,692,000 shares of common stock outstanding, which was higher by 2,373,000 shares, amounted to $92,899,000, up 4.9%.

On November 1, 1979, an increase of $26,888,000 annually in electric revenues became effective in Oregon. The Public Utility Commissioner, at the same time, approved an additional increase of $12,622,000 to become effective May 1, 1980 and authorized, subject to review, rate revisions to reflect major system additions as of May 1. Earlier, an increase of $3,066,000 annually in electric revenues was approved by the Washington state commission, effective June 15, 1979. On February 18, 1980, the California commission granted an interim increase in electric revenues of $4,276,000 annually and continued to hold hearings on whether to grant an additional $1,716,000 requested in the Company's filing. This interim increase is subject to refund based on the outcome of further proceedings. On March 11, 1980 an increase of $241,500 became effective in Idaho, a pass-through of higher costs of wholesale power purchases to supply the small service area in that state. Pending are requests for $1,587,000 annually in Montana and $1,671,000 annually in Wyoming.

The continued rapid growth of the Company's service requirements coupled with inflation-driven cost increases means further electric rate increase applications during the balance of 1980.

Fourth Jim Bridger Unit Completed; Work Begins on Transmission Tie

The fourth 500,000-kilowatt capacity steam-electric generating unit at the Jim Bridger project was completed, on schedule and below its original cost estimate, and work was started on a 500,000-volt transmission circuit that will strengthen the link between the Company's coal-fired Wyoming generating resources with its system in southern Oregon.

Commercial operation of the fourth unit at the Bridger project east of Rock Springs, Wyoming, began November 29. The final cost of $316 million was $77 million below the initial estimate. This resulted in a unit cost of $633 per kilowatt compared with the initial estimate of $786 per kilowatt.

Pacific Power is a two-thirds owner and the operator of the 2,000,000-kilowatt capacity Jim Bridger project, largest on its system. Idaho Power Company is a one-third owner. Each of the utilities holds a corresponding share of Bridger Coal Company that supplies fuel for the units from adjacent coal reserves.

Energizing of the westernmost segment of the new 500,000-volt circuit, a 90 mile segment between Medford, Oregon, and facilities at Malin, Oregon, was accomplished in February, 1980. The Malin terminus is interconnected with the high-voltage Pacific Northwest-Pacific Southwest regional intertie lines and the linkage provides interim power delivery capability from the regional intertie into Pacific Power's growing southern Oregon and northern California service areas.

The new 500,000-volt line is more than three years behind its original schedule, due to procedural delays and environmental litigation on routing. The final permits for the full 450 mile route were obtained in 1979 and work is progressing on a schedule that will place the circuit in service in the fall of 1981. Cost of the line was initially estimated at $159 million and is now projected at $237 million due to the delays and rerouting.

The 1979 construction program, exclusive of subsidiaries, required capital outlays of $249 million, of which $85 million was for expansion of transmission and distribution system capacity to serve increased customer loads.

Construction expenditures were about $80 million under the initial 1979 budget, primarily because of schedule slippages in the construction work on large regional plants in which the Company is a minority participant, and the cost under-run at Jim Bridger.

Work on two of the projects was virtually halted in 1979 by controversies surrounding nuclear power. Because of regulatory agency delays, litigation and restrictive state legislation, there is no way of estimating when construction will resume. Puget Sound Power & Light Company, sponsor of the Skagit project in Washington state, announced deferral of major expenditures on Skagit through 1982, after failure to obtain renewal of a local land-use zoning change after a public advisory vote objected to locating the plant in the Skagit Valley. Skagit had been scheduled to be in service in 1986 and PP&L has a 20% interest. The Pebble Springs project in Oregon, sponsored by Portland General Electric Company, was delayed by 1979 Oregon legislation prohibiting issuance of a site certificate until November 1, 1980, and requiring new studies on safety and waste disposal by the Oregon Department of Energy. Subsequently, PGE announced a rescheduling of the project for an in-service date of the early 1990s instead of the original 1987 target. Pacific Power has a 29.4% interest in Pebble Springs. Pacific Power's shares in the two projects, as originally proposed, amount to 1,256,000 kilowatts of generating capacity. While the Company has adequate reserve generating capacity for its near-term loads, it is counting on these projects to help meet power loads in the late 1980s and early 1990s. The Pacific Northwest region itself faces shortages throughout the current decade. (See Note 7, Page 24).

For 1980 the Company, exclusive of subsidiaries, has budgeted $322,458,000 for new construction, which includes $23,708,000 for the Skagit and Pebble Springs projects. Regular system construction is budgeted for $107,510,000.

Early in 1979 the Wyodak power plant was cited by the National Society of Professional Engineers as one of the year's top ten engineering achievements and the Edison Electric Institute gave its annual outstanding achievement award to PP&L and Black Hills Power and Light Company for the "innovative development and construction" of the project. The awards note the plant utilizes a forced-air dry-cooling system for condensing steam back to water. As a conservation measure, plant water supply is primarily from reclaimed liquid effluent from the Gillette, Wyoming, sewage treatment plant. PP&L takes 80% and Black Hills 20% of Wyodak's output.

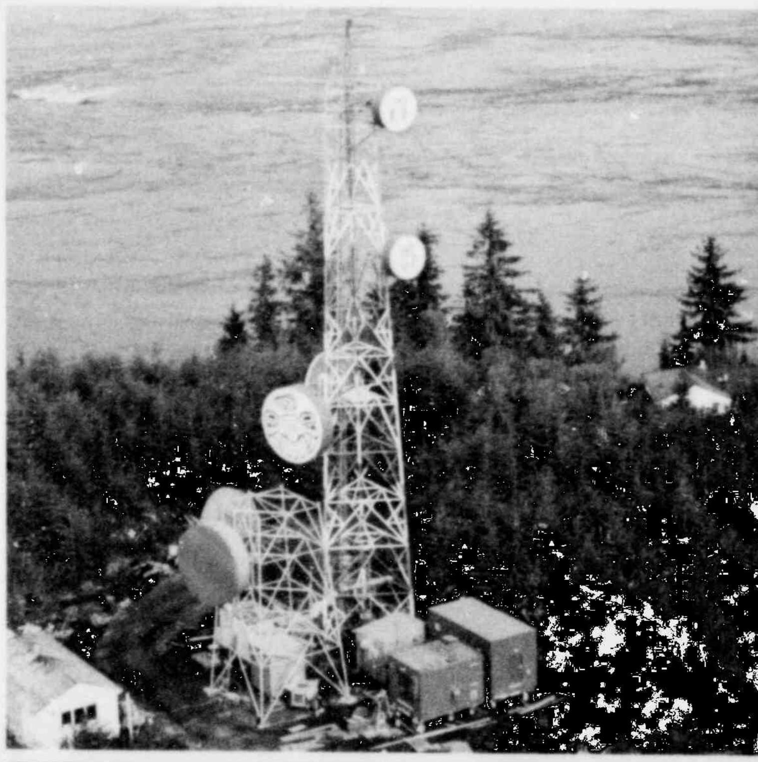
The Company reported in January, 1980, that the two utilities are studying the possibility of constructing a second 330,000-kilowatt plant adjacent to the existing Wyodak operation. Accordingly, application has been made for a Wyoming air quality permit. The new plant could be in service in the mid-1980s.

In mid-February, 1980, the Company applied to the Federal Energy Regulatory Commission for a preliminary permit to study the feasibility of developing additional hydroelectric capability on the Klamath River in southern Oregon at a site known as Salt Caves. The proposal contemplates an earth-fill dam of 120-foot height that would divert flow of the river into a canal to parallel the river for 22,000 feet to establish a head of 430 feet. The water would drop through penstocks feeding two generating units with 140,000 kilowatts of capacity. The Salt Caves project would be located between two of several hydroelectric plants operated by the Company for many years on the Klamath River in Oregon and California. The feasibility study would explore two additional potential sites adjacent to the Salt Caves area. If the permits are granted on a timely basis, the project could be in operation in 1985.

Above is an earth station located northwest of Fairbanks that is one of 15 that replaced outmoded units (two at left) for more efficient services. Top right is a microwave repeater south of Anchorage.

New Telecommunications Subsidiary Provides Long-Lines Service, TV Links To and From and Within Alaska

Alaska's use of advanced technologies for telecommunications is demonstrated by these illustrations of the facilities operated by Alascom, Inc., the wholly-owned PP&L subsidiary that acquired the long-lines and related telephone service facilities in that state on June 1.



At right is a microwave tower, decorated by Tlingit Indian tribal symbols. It instituted Direct Distance Dialing to southeastern Alaska's Sitka and Ketchikan areas.

Below, employees at one of three key toll centers expedite 100,000 long-distance calls daily, plus telex messages, WATS service and vital marine radio communications.

Lower right, a native living at an isolated "bush community" can call friends or summon emergency help because every village of 25 residents has at least one phone available. Calls outside and into the state travel via satellites.

Coal Subsidiary Posts New Records, Starts Work on Major Montana Mine

Significant expansions of activities were recorded for 1979 by NERCO, Inc., the wholly-owned subsidiary of the Company that manages the development of over 1.3 billion tons of surface coal reserves in Montana, Wyoming and Alabama and is engaged in uranium developments in Wyoming and New Mexico.

NERCO's earnings contributed 72¢ to the 1979 per share earnings of the Company, before full allocation of capital costs, almost double its 1978 contribution.

During the year NERCO and its operating subsidiaries:

—Reached record production levels at all owned or operated coal mines.

—Received mining permits in April for the Spring Creek mine and construction at the Montana site was begun.

—Continued planning and pre-development work for two new Wyoming mines.

—Actively worked to market uncommitted coal reserves.

—Reached an agreement, concluded in February, 1980, to acquire another Alabama mine.

—Began uranium mining tests in Wyoming.

Overall coal production associated with NERCO's operations at five mines in three states amounted to 22.9 million tons, up from 17.7 million tons mined in the prior year. NERCO's share of the tonnage was 14.5 million tons, up 24%. The tonnage ranked NERCO the eighth largest coal producer in the U.S.

The largest contribution to 1979 coal production came from the two mines operated by Decker Coal Company, a joint venture with a subsidiary of Peter Kiewit Sons', Inc., of Omaha, Nebraska. Decker's production at the mines in Montana north of Sheridan, Wyoming, was 13 million tons, ranking it the nation's second largest operation. Decker coal is marketed under long-term contracts to Commonwealth Edison Company in Illinois, to Detroit Edison Company in Michigan, and to the City of Austin, Texas, through the Lower Colorado River Authority. Decker's reserves are estimated at 522 million tons of strippable low-sulfur, low-ash coal, of which 307 million tons are committed to delivery through 2003. Decker is capable of producing up to 18 million tons annually.

The Bridger Coal Company, which supplies the Jim Bridger plant near Rock Springs, Wyoming, and is two-thirds owned by a subsidiary of NERCO, produced 5.7 million tons. The mine sells 500,000 tons annually to Prospect Point Coal Company, a Union Pacific Corporation subsidiary.

The Company's mine supplying the Dave Johnston plant near Glenrock, Wyoming, operated by NERCO, produced 3.8 million tons.

Bankhead Mining Company in Jasper, Alabama, acquired in 1978, produced 323,000 tons in 1979 for delivery to Alabama Power Company. In February, 1980, NERCO acquired another mine in northeastern Alabama which supplied approximately 270,000 tons to the Tennessee Valley Authority's Widow's Creek plant in 1979.

The award in April of a federal mining permit signaled the start of on-site mine development and construction activities at NERCO's Spring Creek mine in southeastern Montana north of Sheridan, Wyoming. Production is scheduled in late 1980 for delivery to a subsidiary of Houston Industries in Houston, Texas. Seven million tons of the annual output are consigned to fulfill terms of the 25-year contract for approximately 181 million tons.

Plans for two additional mines in Wyoming are going forward. Antelope Coal Company has a sales contract with Platte River Power Authority, of Fort Collins, Colorado, for delivery of 900,000 tons annually from the Antelope field, 55 miles north of Douglas. A second Antelope contract is in negotiation, calling for delivery of 4,700,000 tons annually in 1989, with an initial delivery schedule of 800,000 tons in 1986. Construction of the mine, assuming needed permits are obtained, would begin in late 1981. Development of the 250 million ton Cherokee reserve, west of Rawlins, is currently being planned for 1986, possibly to fuel a plant being considered in the area to produce synthetic natural gas from coal.

Pursuing its intent to develop other energy-related opportunities, NERCO has a 99% ownership of Nuclear Exploration and Development Company (NEDCO), a Wyoming-based firm. NEDCO and Teton Exploration Company, Casper, Wyoming, jointly have constructed a test plant near Glenrock, Wyoming, that will help determine the feasibility of producing uranium "yellowcake" from underground, in situ leach mining. NEDCO's share of the venture is 40%. NERCO also joined Union Carbide Corporation in 1979 in a joint venture operation to explore and develop uranium leases in Sandoval County, New Mexico. NERCO has a 35% share of this venture, with an option on an additional 14%. NERCO also is involved in the exploration of 17,000 acres of wholly-controlled uranium leases in Wyoming.

Prior to the end of the year NERCO decided not to exercise its option to acquire majority interest in NUBETH, a joint venture that controlled leases on

Replanted Coal Mine Surfaces Improve on Sparse Natural Growth

Land surface rehabilitation programs at the coal mines in the West that are associated with PP&L's subsidiary, NERCO, Inc., have established procedures approved by state and federal government environmental agencies as models for the industry.

Illustrations on these pages demonstrate what has been achieved at the Dave Johnston mine in Wyoming (above), where experimental reclamation began in 1965, and at the West Decker mine in Montana (opposite page) where reclamation began in 1974.

The sparse vegetation, mostly native grass, weeds and sagebrush, and the minimal precipitation and harsh climate of the Northern Plains pose inhibiting conditions. At the D-J mine the foreground area (1) is typical of the native conditions. Within the deliniated area (2) is a healthy growth of grass planted after the mined area was refilled, contoured, topsoil replaced, seeded and fertilized. The visible piles of overburden material of rock, clay and sand (3) will later be shifted into the mine trench (4) after the coal is removed. Then the reclamation cycle is repeated on the approximately 65 acres of land disturbed annually.

Pictured at the right are views of a three-year growth of grass being inspected by agronomists and a small herd of horses placed on the replanted area to test whether the growth will sustain grazing. Another area has a herd of cattle.

Varied Soil and Climatic Conditions Necessitate Site-Oriented Programs

The two Decker Coal Company's mines in southeastern Montana are located within the 17,300 acres of leased lands in the deliniated area (above) and the mining disturbed only 160 acres in 1979 while producing 13 million tons, ranking the operation one of the nation's largest. Decker is one-half owned by a subsidiary of NERCO, Inc., and supplies low-sulfur, low-ash coal to utilities in Chicago, Detroit and Texas.

Aside from the land required for roads, railways and storage silos and other structures, the reclamation work restores to grass and approved shrubs about the same amount of land disturbed annually by the mining.

Because the soil and climatic factors vary slightly from one area and another the reclamation program differs slightly in most instances, but the basic effort is to replace the sparse Northern Plains vegetation with varieties of grass that will enhance the ability to support livestock and the same wildlife that used the habitat under natural conditions.

At the West Decker mine (W) rehabilitation work has been in progress since 1974, two years after mining began. The mining trench (1) is at the outer perimeter of the working area where the coal seam is 55 feet thick. Topsoil and overburden (2) are piled near the trench. One of the six replanted areas (3) is detailed in the smaller picture. The East Decker mine (E) was opened in 1978 and reclamation is in the planning stage.

112,000 acres of Wyoming property for the purpose of uranium exploration. NERCO decided that in situ leaching of uranium from this property was not economically feasible and wrote off as a pre-tax loss it's $3,041,000 investment in the venture.

In addition to NERCO's coal holdings, Pacific Power is a one-half owner of the coal reserve that supplies the Centralia, Washington, plant that the Company operates. The Washington Water Power Company, one of the seven other owners of the Centralia plant, owns the other half of the reserve. Production at the Centralia mine, operated by a subsidiary of Washington Water Power, was 5,051,000 tons in 1979, up from 4,694,000 tons in 1978.

Telecommunication Operations Grow With Acquisition of Alaska System

Acquisition of Alascom, Inc., the telecommunications system that supplies long distance and other related services between local telephone exchanges within Alaska and with the rest of the world, has greatly expanded the Company's operations in this industry. Together with growth of Telephone Utilities, Inc., which is 81% owned by PP&L and operates exchanges in six states, the enlarged telecommunications activities have significant roles in the Company's long-term goals for corporate development.

Earnings from seven months of ownership of Alascom, which was acquired June 1 from RCA Corporation, and the full year's earnings of Telephone Utilities, Inc., contributed 24¢ to the per common share earnings of Pacific Power, before full allocation of capital costs.

TU has continued its recent trend of posting record revenues and net income. The 1979 operating revenues were $54,170,000, up 21%; operating income was $12,613,000, up 19%; and consolidated net income was $9,135,000, up 16.8%.

The number of stations served by TU totaled 185,737 at year's end, up almost 9% and well above the national average growth. The gain reflects the favorable economic situation in the 99 communities served by the TU exchanges in Oregon, Washington, California, Nevada, Idaho and Montana.

TU's construction expenditures of $29 million were financed from internal sources and inter-company loans. For 1980 it is expected that $35 million will be expended for construction, with REA loans and short-term borrowings used as needed.

The acquisition of Alascom provides an opportunity to participate in the growth of the largest state in the union, a state with great diversities in resources that are just beginning to be developed on a broad scale.

Alascom had a net utility plant value of $295 million at year end. For the full year (five months under RCA ownership and seven under PP&L), operating revenues were $150,798,000, up 13%, and net income was $19,796,000, up 10%.

On an average day Alascom's 1,385 employees will handle more than 100,000 long-distance calls, 2,200 telex messages and 500 telegrams. The majority of the long-distance messages into and out of the state are via satellites stationed above the equator. Other services include computer data transmission and access. Terrestrial facilities, satellites and 151 earth stations are used to serve 291 communities and 113 additional facility locations. Alascom also maintains the communications system along the Trans-Alaska oil pipeline between Prudhoe Bay and Valdez. In addition, the State of Alaska has contracted with Alascom to provide live television broadcasts, via satellite, from the primary U.S. networks to 55 locations that reach 90% of Alaska residents.

Because of the geographic and climatic conditions and the distance between the villages and cities of Alaska the system has unique communications responsibilities. For example, every village with a population of 25 or more is provided with at least one telephone for emergency communications needs, such as obtaining medical service that often is flown into the community from the larger centers.

Subsidiary Funding Programs Enlarge Financing Activities

Financing activities were broadened in 1979 to accommodate expansion in all three of the Company's significant business segments. In addition to three major new issues of conventional securities, financing arrangements were completed for NERCO's Spring Creek mine and the acquisition of Alascom. Short-term borrowing capacity was also enlarged.

On June 1 PACOM, the Company's wholly-owned subsidiary formed to acquire Alascom, Inc., consummated a $210 million six-year term loan for this purpose. The financing was funded by a group of 15 commercial banks and managed by Morgan Guaranty Trust Company of New York.

Project financing for Spring Creek Coal Company was completed on June 25 when this wholly-owned NERCO subsidiary entered into a $110 million production payment financing with five commercial banks headed by The Chase Manhattan Bank. The funds are provided as construction proceeds and will be followed by a ten-year payout term commencing in mid-1982. Arrangements for approximately $36 million of equipment lease financing also were made for this mine.

The Company sold $100 million of 10¼% First Mortgage Bonds on April 10 to a group of underwriters led by Lehman Brothers Kuhn Loeb Incorporated. This group bid 0.693% for its compensation and offered the bonds at 99.35% to the public. Net proceeds of the issue to the Company were $98,657,000 at an effective cost of 10.4%.

During the summer negotiations were completed for the private placement of 500,000 shares of the Company's 9.15% $100 Par Value Serial Preferred Stock. Two investment banking firms, Merrill Lynch White Weld Capital Markets Group and Donaldson, Lufkin & Jenrette Securities Corporation, acted as the Company's agents in the October 11 sale to twenty-three insurance companies. Net proceeds were approximately $49,885,000.

Kidder Peabody & Co. Incorporated headed the successful underwriting group that bid $18.271 per share for the January 16, 1980, offering of 3,000,000 shares of the Company's common stock. The shares were reoffered to the public at $18.75. Net proceeds to the Company were $54,813,000.

Corporate short-term borrowing capacity was enlarged as the Company's authorization for issuing commercial paper and its domestic lines of credit were raised to $100 million each. Twenty-four commercial banks now participate in the latter. In addition, the five banks involved in Spring Creek's production payment plan provided a revolving credit line of up to $39 million to Western Minerals, Inc., another NERCO subsidiary.

Additional funds were provided by the sale of the Company's common stock through its dividend reinvestment and stock purchase plan and its employee stock purchase plan. Over 172,000 shares were issued under the latter plan in 1979, an increase of nearly 76% over 1978 sales. There are 2,100 employees of the Company and subsidiaries participating in the 1979 offering.

Dividend Reinvestment and Stock Purchase Plan Available

A dividend reinvestment and common stock purchase plan is available to holders of the common and preferred shares. During 1979 the Company received $8,405,000 from the sale of 419,303 shares of common stock to the 17,000 stockholders participating in the plan. Sales of shares were up 45% from 1978, the initial year.

With the plan being administered by the Company, there are no commissions or service charges to the participants.

Stockholders electing to participate may reinvest the dividends from either or both common and preferred stock in shares of common stock, and also may make cash payments, if they wish, in amounts of not less than $25 per payment and not more than $5,000 per quarter. Optional cash payments received after a monthly investment date will purchase common stock as of the next monthly investment date. Stockholders also may elect to participate in the plan by making the optional cash payments while continuing to receive dividends in the usual way on their shares not held under the plan.

Stockholders whose shares are registered in names other than their own (e.g., broker, bank nominee) must first become holders of record with the Company by having those shares transferred into their own names in order to participate in the plan. A full description of the plan and the forms necessary for participation are available by writing to the Office of Corporate Secretary of the Company.

Energy Conservation Programs Heighten Public Awareness of Need

The Company's continuing commitment to electric energy conservation was intensified during 1979 and public awareness of the need to conserve was heightened by the promotion of energy saving programs and the services available to customers.

Leading the way was the Company's interest-free loan program for weatherization of homes with electric space heating. Under this innovative, nationally recognized program, 6,700 residences had been or were being weatherized at year end.

Under the plan, a homeowner requests the Company to conduct a Home Energy Analysis (HEA) to be performed by a Pacific Power Energy Consultant. The HEA determines whether insulation of floors and ceilings and installation of storm windows and doors will be cost effective. The Company then offers to finance the necessary work as defined by the analysis through loans which are interest free until repaid. In Oregon, Idaho and Montana loans are to be repaid when the home is sold or transferred. In Washington, the loan period is 10 years. Pending is a request for approval of the interest-free weatherization plan in California.

During the term of the loans the amount outstanding will be included in the Company's rate base in the state where applicable and the rate of return will partially offset the cost of the funding. Through 1979 the loans totaled $6 million.

In addition to savings to the customers, the benefit to the Company is the opportunity to obtain kilowatt-hours of energy that can serve new customers. These kilowatt-hours are available at a lower cost than power from new plants. In the long term this reduces capital outlays for new generating capacity and helps reduce overall cost of service.

In 1979 the Company received 16,000 requests for an HEA, of which 12,800 were completed by year end.

Other activities include the Energy Saver Home program that recommends specific features for new home construction; the Energy Wise Home program that certifies dwellings that meet four of six conservation standards; reviews that seek power use adjustments affecting commercial and industrial energy loads which are 59% of the Company's load and have a potential saving of 25%; and advisory services for contractors, developers, architects and designers to optimize energy savings in new structures and to encourage application of passive solar technology where possible.

The Company's interest in research and development of new techniques encompasses a broad range of activities related to solar energy applications and wind, geothermal and biomass alternatives for generation.

Conservation communications include the availability of brochures on a range of subjects, including insulating water heaters, making storm windows, heating with wood, and passive solar systems adaptable for households.

Promotion efforts were highlighted in 1979 by the development and sponsorship of an hour-long television program designed to heighten public awareness of the need to conserve electricity and the industry's problems. Television star Steve Allen was master of ceremonies for the question and answer presentation, entitled the "Electric Energy Test." Thousands of viewers subsequently submitted energy saving ideas and the Company is promoting those that offer prospects for savings. A shortened film version of the show is being shown in schools and to adult groups throughout the system.

Growth of Electric Operations Requires Work Force Additions

Growth in the number of electric customers requiring service, increased activities associated with the Company's program promoting weatherization of houses to conserve energy and expanded power production operations resulted in a net addition of 310 employees to the electric operations work force. At the end of 1979 there were 4,294 employees working for Pacific Power.

The staffing for the fourth generating unit at Jim Bridger added 85 new positions while a higher level of production at other power plants required 44 new employees. The Company's construction force added 16 positions due to greater work load for projects important to system and subsidiary operations and to maintain operating efficiencies.

District operations added 100 new employees to meet the continuing near-record customer growth and the emphasis given the energy conservation programs. At the General Offices in Portland new positions were filled by a department established to centralize the processing of payments from customers system wide and to staff the increasing data processing work of the Company.

The principal subsidiaries (NERCO, Telephone Utilities and Alascom) employed 3,249 at year end, higher because of enlarged coal mining operations of NERCO and the Alascom acquisition.

System Electric Power Operations Increase to Meet Customer Needs

For a second consecutive year low river flows in the Pacific Northwest reduced output from the Company's 33 hydroelectric plants and forced greater reliance on generation from the Company's seven steam-electric plants to supply the increased energy requirements of existing and new customers on the system.

The steam-electric plants, principally coal-fired, produced 66% of the system load, hydroelectric plants supplied 13% and purchases from other systems under long-term contract and exchange agreements, mostly hydro, provided 21% of the load.

The Company's total generating capacity was 3,970,181 kilowatts at year end, on a nameplate rating basis, an increase of 339,039 kilowatts over the prior year with the completion of the fourth unit at the Jim Bridger plant in Wyoming.

General retail customers purchased 18,446 million kilowatt-hours of electricity during 1979, an increase of 7% over 1978. Temporary sales to other utilities for resale amounted to 3,581 million kilowatt-hours. These sales were during short-term periods when the Company had capacity surplus to its own requirements. Other energy sales amounted to 816 million kilowatt-hours.

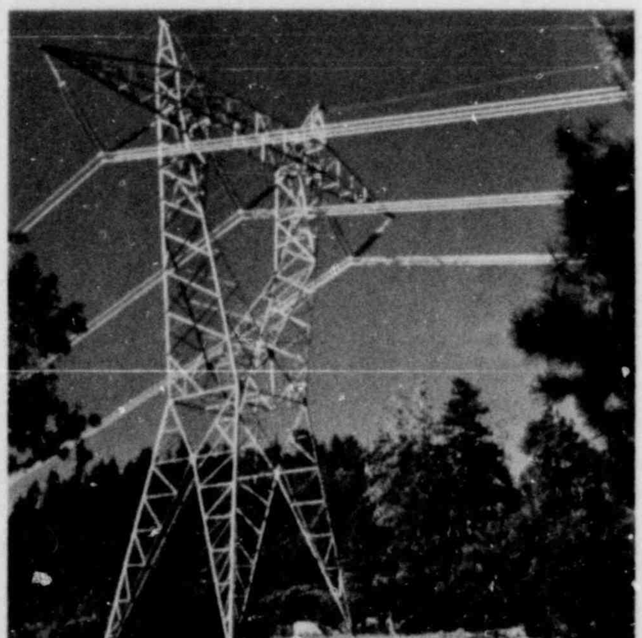
During a severe cold period in January-February of 1979 the system recorded a new high peak demand of 4,084,000 kilowatts on February 2, 1979. Similarly in January-February of 1980 a prolonged period of cold weather across the system pushed demand to a new peak of 4,222,000 kilowatts on January 30, 1980.

Research Activities Advance Concepts For Alternative Energy Sources

The Company's research activities continue to expand in areas relating to greater efficiencies in power production, impacts of system operations on the environment, alternative energy sources such as solar, wind, geothermal and biomass concepts and conservation techniques.

In addition to projects sponsored directly and those in association with neighboring utilities, the Company also was a $1,962,000 participant in the 1979 funding of the Electric Power Research Institute's $205 million program, which was supported by 500 utilities and government agencies. EPRI activities embrace a wide range of projects directed at both near-term and long-term problems and needs that can benefit utility systems and their consumers. Since its founding in 1973, EPRI has undertaken some 1500 investigations, and a number of these have provided direct contributions to improved operations for PP&L.

The Company's efforts include those aimed at improving generating availability of existing steam-electric plants. The work involves improving coal quality, boiler modifications to accommodate variation in coal quality, and stronger emphasis on preventive maintenance practices.



This transmission line tower is one of hundreds that will carry the Company's new 500,000-volt circuit 450 miles from eastern Idaho, across southern Idaho and southern Oregon to southwestern Oregon. The tie will strengthen the link between the Company's coal-fired generating plants in Wyoming with its system in southwestern Oregon. A 90 mile segment was energized in February, 1980, between Medford, Oregon, and Malin, Oregon.

Dry desulfurization processes that will permit existing and future power plants to operate in conformance with air quality regulations on a more cost-effective basis are under test at the Jim Bridger plant in Wyoming. Significant cost saving may be achieved in dry desulfurization of the gas emissions from coal-fired plants as compared to conventional wet scrubbing techniques.

Investigations of solar applications for residential water heating at several sites with varying climates have been completed and a report is being prepared. In Portland, Oregon, the energy conservation laboratory designed to duplicate residential conditions, TERA One, has been further modified to accommodate monitoring of both active and passive solar heating systems. The latter utilizes various features, including an attached greenhouse to collect heat.

During 1979 the Company initiated studies of the reliability and performance efficiencies of a new type of residential water heater using the heat pump concept by installing several such devices for testing on customer premises. The objective is to reduce by at least one-half the electric energy use for household water heating.

The Company is an active participant in preliminary geothermal studies in northern Nevada. The initial studies suggest a 10,000-kilowatt well-head generating unit, assuming a satisfactory contract can be reached with a supplier of geothermal fluid. It is hoped the test unit could be in operation by June, 1981.

Studies are being conducted to determine the use of biomass as an alternate source of energy. These include a study of the Willamette and Umpqua national forests in Oregon to determine if trash residue remaining after logging operations could adequately support steam-electric generation.

A project on wind power will be expanded in 1980 to develop methods for determining wind power potential at various locations and establish information on customer-sized smaller generators.

For two decades the Company has sponsored fish propagation experiments on the watersheds where it operates hydroelectric reservoirs. In May, 1979, in cooperation with the Washington State Department of Game, the Company's biologists released 70,000 young steelhead trout into the North Fork of the Lewis River downstream from the Merwin reservoir in southwestern Washington. The steelhead were reared from three-inch fingerling size to eight inches in an experimental pen formed of nylon net and suspended in the reservoir from floating platforms. The juveniles will journey to the Pacific Ocean and should return as adults in the summer and winter of 1981 and augment the sport fishery of that river.

SUMMARY OF CONSOLIDATED OPERATIONS

	1979	1978	1977	1976	1975
	Years Ended December 31				
	Thousands of Dollars				
UTILITY OPERATING REVENUES:					
Electric	$487,855	$453,393	$360,212	$316,198	$267,586
Telecommunications	142,360	44,698	37,155	32,248	28,836
Other	9,893	8,428	7,257	6,524	5,073
TOTAL UTILITY OPERATING REVENUES	640,108	506,519	404,624	354,970	301,495
UTILITY OPERATING EXPENSES:					
Operation:					
Purchased power and fuel expense	130,327	96,412	76,452	65,761	56,368
Administrative and general	48,936	31,247	28,330	25,317	21,806
Other utility operation expense	105,265	60,272	48,600	43,231	38,573
Maintenance	82,820	43,074	34,564	29,522	27,454
Depreciation	76,161	60,344	51,158	44,093	35,834
Taxes other than income taxes	38,251	36,607	34,739	29,892	26,062
Federal and state income taxes	(1,838)	30,519	8,912	6,318	47
TOTAL UTILITY OPERATING EXPENSES	479,922	358,475	282,755	244,134	206,144
NET UTILITY OPERATING INCOME	160,186	148,044	121,869	110,836	95,351
OTHER INCOME (DEDUCTIONS):					
Allowance for other funds used during construction	23,541	15,986	8,283	10,976	14,015
Coal mining operations—Net	46,777	17,978	15,558	17,650	12,414
Other income—Net of deductions	(2,755)	75	11,907	8,770	2,048
Income taxes	(13,324)	(2,535)	216	(797)	(3,473)
OTHER INCOME (DEDUCTIONS)—NET	54,239	31,504	35,964	36,599	25,004
INCOME BEFORE INTEREST CHARGES	214,425	179,548	157,833	147,435	120,355
INTEREST CHARGES:					
Interest on long-term debt	113,351	83,768	73,877	65,003	52,536
Allowance for borrowed funds used during construction (credit)	(17,491)	(11,342)	(6,685)	(8,504)	(14,006)
Amortization of debt discount, premium and expense—Net	695	558	488	420	361
Other interest	5,359	777	1,578	3,601	9,020
TOTAL INTEREST CHARGES—NET	101,914	73,761	69,258	60,520	47,911
NET INCOME	112,511	105,787	88,575	86,915	72,444
Preferred Dividend Requirements	19,612	17,200	13,959	12,375	8,631
EARNINGS APPLICABLE TO COMMON STOCK	$ 92,899	$ 88,587	$ 74,616	$ 74,540	$ 63,813
Average number of shares of Common Stock outstanding (in thousands)	37,692	35,319	33,626	30,016	27,725
Earnings per common share	$2.46	$2.51	$2.22	$2.48	$2.30
Cash dividends declared per common share	1.95	1.89	1.80	1.725	1.675

MANAGEMENT'S DISCUSSION AND ANALYSIS OF SUMMARY OF CONSOLIDATED OPERATIONS

UTILITY OPERATING REVENUES

Electric operating revenues increased 26% in 1978 and 8% in 1979 due primarily to the effect of higher rates. During 1978, sales to other public utilities of generated power temporarily surplus to the Company's needs were substantial, while such sales declined in 1979. Adverse water conditions in 1977 and 1979 caused these sales to be approximately 53% and 79%, respectively, of 1978 amounts (see "Energy Sales, Customer and Other Statistics" on page 30). In early 1980, water conditions improved but regional streamflow and reservoir levels remained below normal.

Telecommunications revenue increased 20% in 1978 as a combined result of sustained growth in the number of stations served, higher toll settlements and a rate increase in early 1978. In 1979, telecommunications revenue grew

218% as a result of the continuance of positive growth factors and, most significantly, the inclusion of seven months of Alascom revenues ($87,705,000) since its acquisition on June 1, 1979 (see Note 9 to Consolidated Financial Statements).

Other utility (water and steam heat) revenues also increased in 1978 and 1979 as a result of the rate relief granted.

See page 4 for information regarding rate increases granted and pending.

UTILITY OPERATING EXPENSE

In 1978 total utility operating expenses rose 27% due primarily to increased purchased power, as a result of greater availability of secondary hydroelectricity, higher fuel, maintenance and other expenses resulting from increasing use of a greater number of steam-electric plants, increased depreciation, primarily related to higher rates effective January 1, 1978 and increased income taxes, due to higher levels of utility income and the deferral of substantial amounts of investment tax credits utilized by utility operations in 1978.

In 1979, total utility operating expenses were 34% greater than in 1978. Substantially higher fuel, other production and maintenance expense were related to the poor water conditions and a resultant increase in steam-electric generation, as well as to the Company's continued greater overall reliance on steam-electric resources. Also contributing to the increase in operation expenses were lease charges for Wyodak, which commenced operation in June 1978, and were reflected for a full year in 1979. Increases in depreciation, administrative and general and other utility operation expense, as well as a portion of the increase in maintenance expenses, primarily result from the inclusion of Alascom's operations since June 1, 1979 (see Note 9 to Consolidated Financial Statements). Income taxes in 1979 declined due, in part, to reduced levels of utility taxable income.

OTHER INCOME (DEDUCTIONS)

Other income (deductions)—net declined 12% in 1978 from 1977 principally due to the non-recurring sale of Wyoming coal reserves in June 1977, which was only partially offset by a higher level of allowance for other funds used during construction in 1978.

Substantial improvements in coal mining operations during 1979 was the primary cause of the 72% increase in other income (deductions)—net over 1978. Revenues from coal mining operations (including the minority share in Bridger Coal Company) increased 20% and 89% in 1978 and 1979 respectively, as a result of increased production and prices. While annual coal production declined 8% for 1978, primarily due to transportation related problems and to poor early-year weather conditions, more normal operations and favorable short-term sales resulted in a 27% production increase in 1979. The average price for coal increased approximately 30% in 1978 and 47% in 1979. Increased revenues more than offset increased costs as coal mining operations—net (before interest expense and income taxes) increased 16% in 1978 and 160% in 1979.

The 93% increase in allowance for other funds used during construction in 1978 is due to increases in both the allowance rate and the level of construction work in progress, while the 47% growth in this item in 1979 resulted only from an increase in the level of construction work in progress. Income taxes attributable to other income increased in 1979 principally because of greater coal income. Total income tax expense was partially offset by the flow-through of certain investment tax credits generated by utility operations (see Notes 1 and 6 to Consolidated Financial Statements).

INTEREST CHARGES

Increases in interest charges—net in 1978 and 1979 (7% and 38%, respectively) resulted from the issuance of additional long-term debt to finance the Companies' continuing construction programs and mine development activities, and in 1979 from costs of long-term debt incurred in the acquisition of Alascom.

NET INCOME

Continuing increases in operating expenses and interest charges were offset by various increases in revenues and other income, with the result that net income improved in both 1978 and 1979.

EARNINGS APPLICABLE TO COMMON STOCK

The increase in net income in 1978 resulted in an increase in earnings applicable to common stock and earnings per common share, despite the increase in preferred dividend requirements (caused by the issuance of 1,600,000 additional shares of No Par Preferred Stock in May 1978) and an increase in the average number of common shares outstanding. This latter increase is attributable to the offerings of 2,500,000 common shares in May 1977 and October 1978.

The increase in net income in 1979 was greater than the increased preferred dividend requirement (caused by the issuance in October of 500,000 shares of $100 par preferred) which resulted in an increase in earnings applicable to common stock. Earnings per common share decreased from 1978, however, due to the increase in the average number of common shares outstanding.

CONSOLIDATED BALANCE SHEETS

ASSETS

	DECEMBER 31 1979	DECEMBER 31 1978
	Thousands of Dollars	
UTILITY PLANT (Notes 1 and 5):		
Utility plant in service:		
Electric	$2,168,890	$1,921,240
Telecommunications	493,610	132,867
Other	37,215	33,344
TOTAL	2,699,715	2,087,451
Accumulated provision for depreciation and amortization	(489,481)	(377,750)
UTILITY PLANT IN SERVICE—NET	2,210,234	1,709,701
Construction work in progress (Note 7)	406,422	412,329
Other utility plant	21,692	19,601
UTILITY PLANT—NET	2,638,348	2,141,631
OTHER PROPERTY AND INVESTMENTS (Note 1):		
Nonutility property (less accumulated provision for depreciation and amortization—1979, $29,809,000, 1978, $24,690,000)	148,851	114,277
Other	57,847	22,251
TOTAL OTHER PROPERTY AND INVESTMENTS	206,698	136,528
CURRENT ASSETS:		
Cash (Note 2)	13,632	2,971
Working funds and deposits	3,669	2,740
Temporary cash investments	5,216	6,520
Accounts receivable:		
Customer (less accumulated provision for uncollectible accounts—1979, $1,532,000, 1978, $585,000)	93,129	52,352
Other	19,006	18,721
Materials, supplies and fuel stock (at average cost)	58,100	41,978
Prepayments	4,724	3,245
TOTAL CURRENT ASSETS	197,476	128,527
DEFERRED DEBITS:		
Unamortized debt expense	4,082	3,038
Preliminary survey and investigation charges	13,322	11,747
Miscellaneous work in progress	45,408	30,360
Other	23,453	18,091
TOTAL DEFERRED DEBITS	86,265	63,236
TOTAL ASSETS	$3,128,787	$2,469,922

(See accompanying Notes to Consolidated Financial Statements)

PACIFIC POWER & LIGHT COMPANY

LIABILITIES

	DECEMBER 31 1979	DECEMBER 31 1978
	Thousands of Dollars	
CAPITALIZATION:		
Common Equity (Note 3):		
Common stock	$ 123,498	$ 121,576
Premium on capital stock	478,292	468,841
Installments received on common stock	142	101
Capital stock expense	(21,859)	(21,587)
Retained earnings	228,517	209,208
Preferred Stock (Note 3)	227,236	227,236
Redeemable Preferred Stock (Note 4)	50,000	—
Long-term debt (Note 5)	1,515,599	1,138,395
TOTAL CAPITALIZATION	2,601,425	2,143,770
CURRENT LIABILITIES:		
Long-term debt currently maturing	53,733	19,629
Notes payable (Note 2)	10,000	6,000
Commercial paper (Note 2)	56,000	13,500
Accounts payable	66,437	44,617
Taxes accrued	54,236	54,054
Interest accrued	26,026	23,109
Dividends declared	25,053	22,612
Other	38,830	15,888
TOTAL CURRENT LIABILITIES	330,315	199,409
DEFERRED CREDITS:		
Customer advances for construction	10,635	9,100
Accumulated deferred investment tax credits (Notes 1 and 6)	37,536	24,396
Accumulated deferred income taxes (Notes 1 and 6):		
Accelerated amortization	19,032	20,700
Liberalized depreciation	74,355	33,310
Other	21,300	15,911
Other	13,443	8,125
TOTAL DEFERRED CREDITS	176,301	111,542
OPERATING RESERVES	2,746	2,102
MINORITY INTEREST IN SUBSIDIARY COMPANIES	18,000	13,099
COMMITMENTS AND CONTINGENT LIABILITIES (Note 7)		
TOTAL LIABILITIES	$3,128,787	$2,469,922

(See accompanying Notes to Consolidated Financial Statements)

STATEMENTS OF CONSOLIDATED INCOME

	Years ended December 31 1979	1978
	Thousands of Dollars	
UTILITY OPERATING REVENUES:		
Electric	$487,855	$453,393
Telecommunications (Note 9)	142,360	44,698
Other	9,893	8,428
TOTAL UTILITY OPERATING REVENUES	640,108	506,519
UTILITY OPERATING EXPENSES:		
Operation:		
Electric utility:		
Power purchased and interchanged—Net	41,695	37,753
Fuel expense	88,632	58,659
Other production	30,984	16,567
Transmission and distribution	22,012	20,346
Customer service expense	15,803	13,126
Other utilities	36,466	10,233
Administrative and general	48,936	31,247
Maintenance	82,820	43,074
Depreciation	76,161	60,344
Taxes other than income taxes	38,251	36,607
Federal and state income taxes (Notes 1 and 6)	(1,838)	30,519
TOTAL UTILITY OPERATING EXPENSES	479,922	358,475
NET UTILITY OPERATING INCOME	160,186	148,044
OTHER INCOME (DEDUCTIONS):		
Allowance for other funds used during construction (Note 1)	23,541	15,986
Coal mining operations (Note 1):		
Revenues	163,652	86,518
Expenses other than income taxes	(114,265)	(66,295)
Minority interest	(2,610)	(2,245)
Other income	7,113	5,647
Other deductions	(8,118)	(3,988)
Minority interest in telephone operations	(1,750)	(1,584)
Income taxes (Notes 1 and 6)	(13,324)	(2,535)
OTHER INCOME (DEDUCTIONS)—NET	54,239	31,504
INCOME BEFORE INTEREST CHARGES	214,425	179,548
INTEREST CHARGES:		
Interest on long-term debt	113,351	83,768
Allowance for borrowed funds used during construction (credit) (Note 1)	(17,491)	(11,342)
Amortization of debt discount, premium and expense—Net	695	558
Other interest	5,359	777
TOTAL INTEREST CHARGES—NET	101,914	73,761
NET INCOME	$112,511	$105,787
Earnings per common share, based on average number of common shares outstanding during each year—1979, 37,692,000; 1978, 35,319,000 (after recognition of preferred dividend requirements of $19,612,000 for 1979 and $17,200,000 for 1978)	$2.46	$2.51

STATEMENTS OF CONSOLIDATED RETAINED EARNINGS

	Years ended December 31 1979	1978
	Thousands of Dollars	
Balance, January 1	$209,208	$187,450
Net income	112,511	105,787
Total	321,719	293,237
Deduct cash dividends:		
Preferred stock	19,612	17,200
Common stock	73,590	66,829
Total cash dividends	93,202	84,029
Balance, December 31 (Note 3)	$228,517	$209,208

(See accompanying Notes to Consolidated Financial Statements)

STATEMENTS OF CHANGES IN CONSOLIDATED FINANCIAL POSITION

	Years Ended December 31	
	1979	1978
	Thousands of Dollars	
SOURCE OF FUNDS:		
From Operations:		
Net income	$112,511	$105,787
Non-cash charges (credits) to income:		
Depreciation—Utility plant	76,161	60,344
—Nonutility property	9,602	5,898
Deferred income taxes—Net	13,230	3,801
Investment tax credit adjustments—Net	(3,071)	19,147
Allowance for funds used during construction	(41,032)	(27,328)
Other—Net	6,279	6,844
TOTAL FROM OPERATIONS	173,680	174,493
From Outside Sources:		
Long-term debt	354,574	53,237
Redeemable preferred stock	49,885	—
Preferred stock	—	38,530
Common stock	11,257	59,119
Net increase in short-term debt	46,500	19,500
Net decrease in temporary investments	1,304	1,165
TOTAL FROM OUTSIDE SOURCES	463,520	171,551
Sale of Wyodak project constructed for leaseback	—	211,453
Decrease (increase) in working capital (excluding short-term debt and temporary investments)	(19,951)	(7,217)
Other sources—Net	4,243	8,788
TOTAL SOURCE OF FUNDS	$621,492	$559,068
APPLICATION OF FUNDS:		
Construction expenditures:		
Utility plant	$300,875	$271,219
Nonutility property	56,883	38,954
Total construction expenditures	357,758	310,173
Allowance for funds used during construction	(41,032)	(27,328)
Construction expenditures—Net	316,726	282,845
Purchase of Alascom, Inc., less working capital acquired:		
Property—Net	274,984	—
Other assets and liabilities—Net	(7,070)	—
Long-term debt assumed	(90,000)	—
Purchase of interest in nonutility companies	—	5,388
Dividends—Preferred stock	19,612	17,200
—Common stock	73,590	66,829
Long-term debt reduction	33,650	186,806
TOTAL APPLICATION OF FUNDS	$621,492	$559,068

(See accompanying Notes to Consolidated Financial Statements)

This 1979 Annual Report has been prepared by the Company to provide general and statistical information concerning the Company, and not in connection with any sale, offer for sale or solicitation of an offer to buy any securities.

Notes to Consolidated Financial Statements

December 31, 1979 and 1978

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Basis of Presentation—

The consolidated financial statements include those of the Company, its majority-owned subsidiaries and a 50% interest in the assets, liabilities, and results of operations of a commercial coal mining joint venture ("Companies"), since dates of organization or acquisition. Utility operations include electric, telecommunications, water, and steam heating. Electric utility operations include two coal mines which produce coal for Company plants (See Note 10). Coal mining operations include the commercial coal mining joint venture interest, a wholly-owned commercial coal mining company, and a $66\frac{2}{3}\%$ owned coal mining company which primarily serves a Company plant and also sells coal commercially.

Revenues from coal mining operations include sales to a joint venture partner of $14,423,000 in 1979 and $11,603,000 in 1978. Payments to an affiliate of a joint venture partner for equipment construction, development cost, and management services aggregated $4,290,000 in 1979 and $18,525,000 in 1978.

All significant intercompany transactions and balances have been eliminated, except certain purchases of coal and leasing of equipment from nonutility subsidiaries because of the distinction for regulatory purposes between utility and nonutility operations. Such eliminations would have had no effect on consolidated net income.

Regulatory Authorities—

Accounting for the utility operations of the Companies is in conformity with generally accepted accounting principles as applied to regulated public utilities and as prescribed by federal agencies and the regulatory agencies of the various states in which the Companies operate.

Utility Plant—

Utility plant in service is stated substantially at original cost. Additions to utility plant include the cost of contracted services, direct labor and material, indirect charges for engineering, supervision and similar overhead items, and an allowance for funds used during construction.

Maintenance and repairs of property, and replacements and renewals of items determined to be less than units of property, are charged to operating expense-maintenance. The cost of units of property replaced or renewed, plus removal costs, less salvage, is charged to accumulated provision for depreciation, and the cost of related replacements and renewals is added to utility plant. Betterments are charged to utility plant. Upon sale or disposition of property other than through normal retirement, the difference between the proceeds realized and the cost, less the estimated portion of the accumulated provision for depreciation applicable thereto, is recorded in income.

Depreciation of utility plant is computed under the straight-line method based on the estimated service lives of the various classes of property. Provisions for depreciation were 3.39% of average depreciable plant in service for 1979 and 3.16% for 1978.

Other Property and Investments—

Nonutility property (principally coal mining equipment) is stated at cost. Depreciation is provided principally on the straight-line method based upon the estimated useful lives of the related assets. Coal mine development costs are capitalized and amortized over the life of the mine.

The excess of cost over net assets of businesses acquired ($49,800,000 and $14,400,000 at December 31, 1979 and 1978, respectively) is recorded as other property and investments-other, and is generally being amortized over 40 years (see Note 9).

Allowance for Funds Used During Construction—

An allowance for funds used during construction, which is capitalized as part of the cost of most utility plant, is defined by regulatory agencies as the cost of borrowed funds used for construction purposes and a reasonable rate on other funds when so used. Generally, the composite rate used was $8\frac{1}{2}\%$ for both years.

Income Taxes—

The Company files a consolidated federal income tax return. Income tax provisions of the individual companies are computed on a separate return basis.

For income tax purposes, the Companies generally compute depreciation under the liberalized methods allowed by the Asset Depreciation Range System (ADR) which became effective in 1971. For electric, steam heating, and water utility properties, deferred income taxes are provided for the excess of the tax reductions attributable to the use of ADR over the use of liberalized depreciation methods and guideline lives used prior to the adoption of ADR. The tax reductions relating to the difference between such prior liberalized methods and book depreciation are flowed through to net income. For telecommunications properties, deferred income taxes are provided for the total tax reduction resulting from the excess of the ADR method over book depreciation. Deferred income taxes are not provided for certain other differences between book and taxable income of the utility operations. Under regulatory practices to which the utility operations of the Companies are subject, it is expected that most income taxes not provided for currently will be recoverable through revenues when such taxes become payable. Deferred income taxes are provided for all timing differences of the coal mining operations.

Federal income tax reductions resulting from the investment tax credit relating to utility plant, other than telecommunications, are deferred and amortized to income generally over eight-year periods. Beginning in 1976, with regulatory approval, investment tax credits generated by electric utility operations, but not estimated to be realizable by such operations on a separate return basis, are credited to other income to the extent currently realizable on a consolidated federal tax return basis. Previously, any such credits utilized on the consolidated return would also have been available on a separate return basis by the electric utility operations. Investment tax credits relating to telecommunications plant are deferred and amortized to income over the estimated useful life of the property. The coal mining operations flow investment tax credits through to income in the year the credit is realized.

Deferred income taxes accumulated prior to 1964 resulting from accelerated amortization of certain properties under Necessity Certificates are being amortized to income over 25-year periods.

Retirement Plans—

Substantially all employees of the Companies are covered under various retirement plans. Pension costs are funded as the liability accrues, based on actuarial determinations, including amortization over a 30-year period of unfunded prior service costs.

Revenue Recognition—

Utility operating revenues are generally recognized on the basis of cycle billings rendered monthly. The Companies do not accrue revenues for services beyond such cycle billing dates.

2. COMPENSATING BALANCES AND SHORT-TERM BORROWINGS:

Substantially all of the funds included in cash are in the form of demand deposits and include compensating balances informally required by banks under lines of credit with respect to outstanding short-term loans and unused lines of credit. These balances may be withdrawn without restriction for use as general operating funds on a day-to-day basis, provided the Company maintains certain average bank balances.

At December 31, 1979 and 1978, the Company's total bank commitments under lines of credit were \$100,000,000 and \$79,000,000, respectively. Minimum compensating balance requirements were \$9,150,000 and \$7,400,000, respectively, to be increased in some cases depending on usage. The lines of credit are periodically reviewed by the various banks and may be renewed or cancelled. A \$50,000,000 Eurodollar loan facility which expired in March 1979 was renewed with a \$75,000,000 facility expiring in March 1981, for which no compensating balances are required. Commitment fees charged in connection with the Eurodollar loan facility and the lines of credit are not significant. The Company also has authority to issue up to \$100,000,000 in commercial paper.

3. COMMON EQUITY AND PREFERRED STOCK:

	Capital Stock Issued and Outstanding	
	Number of Shares	December 31, 1979 and 1978 Thousands of Dollars
Preferred stock:		
5% preferred, cumulative; authorized, 126,533 shares of $100 par value	126,533	$ 12,653
Serial preferred, cumulative; authorized, 2,500,000 shares of $100 par value (including 500,000 shares of Redeemable Preferred Stock—see Note 4):		
4.52%	9,835	984
7.00%	18,060	1,806
6.00%	5,932	593
5.00%	42,000	4,200
5.40%	70,000	7,000
4.72%	100,000	10,000
4.56%	100,000	10,000
8.92%	150,000	15,000
9.08%	300,000	30,000
7.96%	250,000	25,000
No par serial preferred, cumulative; authorized, 8,000,000 shares:		
$2.48 (stated value, $25)	1,600,000	40,000
$2.13 (stated value, $25)	1,200,000	30,000
$2.29 (stated value, $25)	1,600,000	40,000
Total preferred stock	5,572,360	$227,236
Common stock, authorized, 50,000,000 shares of $3.25 par value:		
December 31, 1979	37,999,469	$123,498
December 31, 1978	37,407,993	121,576

Generally, preferred stock is redeemable at stipulated prices plus accrued dividends, subject to certain restrictions.

In October 1978 the Company sold 2,500,000 shares of common stock by an underwritten public offering for $51,267,000 and in January 1980, 3,000,000 shares were similarly sold for $54,813,000. In May, 1978 the Company sold 1,600,000 shares of $2.29 no par serial preferred stock for $38,530,000.

In connection with the Employees Stock Purchase Plan, 172,173 and 98,056 shares of common stock were issued to employees during 1979 and 1978, respectively. At December 31, 1979, 247,635 shares of unissued common stock were reserved for unpaid subscriptions of the participants in the Plan and 9,053 shares were reserved for future offerings. The Company was trustee for 63,684 fully-paid for shares.

Under the Dividend Reinvestment and Stock Purchase Plan, 292,115 shares of the Company's unissued common stock were reserved for issuance at December 31, 1979. During 1979, 419,303 (288,582 during 1978) shares of common stock were sold under the plan.

The excess of the net proceeds over par or stated value has been credited to premium on capital stock.

The loan agreements of the Companies, impose, among other covenants, limitations either directly or indirectly on the payment of dividends. Under the most restrictive interpretation of these covenants, approximately $56,856,000 of retained earnings was restricted at December 31, 1979.

4. REDEEMABLE PREFERRED STOCK.

On October 11, 1979 the Company issued 500,000 shares of 9.15% Serial Preferred Stock (par value, $100).

On October 10, 1989 and each October 10 thereafter, so long as any of the 9.15% Serial Preferred Stock is outstanding, the Company is obligated to purchase 31,250 shares (at par value plus accrued dividends). At any time the Company is in default in its obligation to make any such purchases, it may not pay cash dividends on its Common Stock.

The Company also has the option to purchase additional shares aggregating up to 35% of the original issue. The shares are further redeemable at stipulated prices plus accrued dividends, subject to certain restrictions.

5. LONG-TERM DEBT:

Pacific Power & Light Company:	December 31 1979	1978
	Thousands of Dollars	
First Mortgage Bonds:		
3 % Series due 1980	$ —	$ 9,000
4⅛% Series due June 1, 1981	5,849	5,849
3⅝% Series due 1982	12,500	12,500
3¾% Series due Sept. 1, 1982	7,500	7,500
4⅛% Series due Oct. 1, 1982	6,157	6,157
9⅞% Series due 1983	70,000	70,000
3¾% Series due March 1, 1984	8,659	8,659
3⅜% Series due 1984	8,000	8,000
3½% Series due Aug. 1, 1984	30,000	30,000
3⅝% Series due 1985	10,000	10,000
4⅜% Series due May 1, 1986	14,454	14,454
4¼% Series due 1988	15,000	15,000
4⅜% Series due July 1, 1988	20,000	20,000
10¾% Series due May 1, 1990†	60,000	60,000
5⅛% Series due 1990	20,000	20,000
4¾% Series due 1992	35,000	35,000
4½% Series due Dec. 1, 1992	32,000	32,000
4⅝% Series due 1993	30,000	30,000
4⅝% Series due 1994	30,000	30,000
5 % Series due 1995	30,000	30,000
8 % Series due 1999	25,000	25,000
8¾% Series due Nov. 1, 1999	20,000	20,000
9⅝% Series due 2000	25,000	25,000
7⅞% Series due 2001	40,000	40,000
8 % Series due Oct. 1, 2001	35,000	35,000
7¾% Series due 2002	30,000	30,000
8⅜% Series due 2004	60,000	60,000
10 % Series due 2006	75,000	75,000
7¾% Series due July 1, 2006††	35,000	35,000
8⅝% Series due Dec. 1, 2006	50,000	50,000
6⅜% Series due Jan. 1, 2007††	17,000	17,000
8⅞% Series due Nov. 1, 2007	100,000	100,000
10¼% Series due 2009	100,000	—
Total First Mortgage Bonds	1,057,119	966,119

†Due 1985 upon exercise of option by holder.

††Issued to secure Company's obligations under financing agreements to pay principal and interest on Collateralized Pollution Control Revenue Bonds issued by Converse County, Wyoming.

	December 31 1979	1978
	Thousands of Dollars	
Guaranty of Pollution Control Revenue Bonds, County of Sweetwater, Wyoming:		
6% Series 1973 due 2003	$ 25,000	$ 25,000
8⅜% Series 1975A due 2005	15,000	15,000
8½% Series 1975B due Dec. 1, 2005	10,425	10,425
6½% Series 1977 due Dec. 1, 2007	51,000	51,000
Less funds on deposit with trustee	(7,130)	(20,810)
Miscellaneous	415	492
Unamortized premium and discount on long-term debt	(8,045)	(7,086)
Total long-term debt of Pacific Power & Light Company	1,143,784	1,040,140
Subsidiaries:		
Telephone Utilities, Inc.:		
2%-8% First Mortgage Notes due 1990-2009	2,019	1,603
5%-10¼% First Mortgage Notes maturing through 1998	14,424	15,621
7¾% Second Mortgage Note due 1980	—	11,000
5¾%-9¾% Unsecured Notes due 1980-2007	12,961	13,437
NERCO, Inc.:		
6%-15.71% Notes due in installments through 2002	9,477	24,976
Spring Creek Coal Company Production Payment Financing*	24,000	—
Capitalized lease obligations (See Note 7)	18,128	11,888
PACOM Inc.:		
Notes due 1981-1986**	189,000	—
Alascom, Inc., 8¾% Notes due 1983-1997	90,000	—
Other Subsidiaries—		
11% Notes due 1980-1996	10,750	11,550
7%-8% Unsecured Notes due in installments through 1997	1,056	1,180
7¾% Note due 1980	—	7,000
Total long-term debt of subsidiaries	371,815	98,255
Total long-term debt	$1,515,599	$1,138,395

*Interest rate (16.775% at December 31, 1979) fluctuates based upon the prime rate.

**Interest rate (15.555% at December 31, 1979) fluctuates based upon the prime rate or commercial paper rate.

Substantially all of the assets of the Companies are subject to liens of mortgages or security agreements.

At December 31, 1979, subsidiaries of NERCO had unused borrowings of $39,000,000 under a credit agreement and $86,000,000 under a coal production payment financing.

6. INCOME TAXES:

Provisions for income taxes in 1979 and 1978 were less then the amounts computed by applying the statutory federal income tax rate to income before tax. The reasons for these differences are as follows:

	1979	1978
	Thousands of Dollars	
Computed income tax based on statutory federal income tax rate	$55,262	$65,015
Reduction in tax resulting from:		
Allowance for funds used during construction	(17,943)	(13,117)
Excess of tax over book depreciation (flow-through basis)	(9,947)	(9,082)
Ad valorem, payroll and sales taxes capitalized	(1,412)	(674)
Investment tax credit restored	(3,369)	(3,309)
Investment tax credit flow-through	(2,589)	(4,190)
Depletion	(5,515)	(4,525)
Effect of items taxed as capital gains	(740)	(610)
Elimination of amounts provided in prior years	(3,410)	---
Other items capitalized and miscellaneous differences	(2,676)	182
State income tax	3,825	3,364
Total income tax expense	$11,486	$33,054
Income tax expense consists of the following:		
Taxes currently payable:		
Federal	$ (825)	$ 6,742
State	2,152	3,364
Deferred income taxes:		
Deferred	16,129	6,955
Restored	(2,899)	(3,154)
Investment tax credit adjustments—net	(3,071)	19,147
Total income tax expense	11,486	33,054
Amount charged to other income	(13,324)	(2,535)
Federal and state income tax expense (credit) included in operating expenses	$ (1,838)	$30,519

Deferred income taxes relate primarily to depreciation timing differences. In 1978, pursuant to a regulatory agency's order, the Company reclassified $6,807,000 of taxes accrued to accumulated deferred income taxes.

Unused investment tax credits at December 31, 1979, aggregated approximately $39,000,000, the majority of which may be carried forward and will expire, if not used, in 1985 and 1986.

7. COMMITMENTS AND CONTINGENT LIABILITIES:

The Companies have substantial commitments in connection with their construction programs which are budgeted at $520,624,000 in 1980.

At December 31, 1979, the Company has $648,043,000 of net utility plant in service which is jointly owned with other utilities and has recorded $230,369,000 of construction work in progress under joint construction. Each participating utility is responsible for funding its share of construction costs and for providing its own financing. The costs of operating and leasing the operating plants are similarly shared, and the Company's portion is recorded in its applicable operations, maintenance and tax accounts.

The Company has invested about $140,000,000 in two nuclear projects sponsored by other utilities for which construction has been delayed due to legislative action and problems in obtaining licenses and permits. The plant sponsors are considering alternative sites, and are currently revising cost estimates and commercial operation dates. If the units are moved to another site, there may be investments attributable to the abandoned site that would not be transferrable to the new site. The Company would seek regulatory authorization to recover such amounts through its rates. In the Company's 1979 rate order, the Oregon Public Utility Commissioner disallowed amortization of minor abandoned plant under what the company believes to be an erroneous interpretation of Oregon law.

The Companies conduct a portion of their operations using leased property, including the Company's general office, various district offices, transportation equipment, computers, certain coal mining equipment and a coal-fired generating plant, under leases expiring during the next 25 years. Rental payments are calculated upon the basis of elapsed time. Substantially all options to renew existing leases provide for negotiation of the amount of rental at the time of exercising such options. Except for relatively minor leases, there are no existing options to purchase or escalation clauses. The Companies are also committed to pay all taxes and expenses of operation (other than depreciation) and maintenance applicable to the leased property, except for the property under several relatively minor leases.

Rentals charged to expense for the years ended December 31, 1979 and 1978 were as follows:

	1979	1978
	Thousands of Dollars	
Total rental expense	$43,800	$13,109
Less rentals from subleases	(429)	(391)
Net rental expense	$43,371	$12,718

The minimum rental payments of the Companies under all noncancelable leases for the periods indicated are as follows:

	Operating Leases	Capitalized Leases	Less Subleases	Net Rentals
		Thousands of Dollars		
1980	$ 33,610	$ 1,758	$ 443	$ 34,925
1981	31,032	1,707	428	32,311
1982	24,314	1,622	393	25,543
1983	23,645	1,569	132	25,095
1984	22,434	1,543	111	23,866
Thereafter	349,363	26,616	403	375,576
Total	$484,401	34,815	$1,910	$517,306
Less imputed interest		(15,886)		
Present value of minimum rental payments		18,929		
Less current accounts payable		(801)		
Long-term capitalized lease obligation		$18,128		

On June 8, 1978, the Company entered into a lease for the Wyodak Project. The lease has an initial term of 25 years with renewal options aggregating 20 years. The Company receives 80% of the plant's output and is unconditionally committed to pay 80% of the lease rent, replacements, operating expenses, and maintenance. The various state regulatory agencies have indicated that such lease will be treated as an operating lease for rate-making purposes, The Wyodak lease and several minor leases meet the accounting criteria for capital leases. In accordance with generally accepted accounting principles as applied to regulated utilities, the Company has not capitalized these leases, but rather charges lease costs to operating expenses. Had the Company capitalized these leases, the total December 31, 1979 and 1978 assets and liabilities would have increased by approximately $184,700,000 and $189,000,000, respectively. The effect of such capitalization on operating expenses before income taxes would have been an increase of $5,200,000 in 1979 and 1978, respectively. The Company believes that the majority of such increase would have been reflected in additional revenues if capitalization were accepted for rate-making purposes and that operating income, therefore, would be substantially unchanged. The future minimum rental payments pertaining to these leases total approximately $429,000,000, with minimum rental payments approximating $18,000,000 annually through 2003.

At December 31, 1979 and 1978, nonregulated subsidiaries held property under capital leases totaling $18,600,000 and $12,413,000, respectively. These amounts are recorded as nonutility property, together with $811,000 and $293,000, respectively, of related accumulated provision for depreciation and amortization.

8. EMPLOYEES' RETIREMENT PLANS:

Retirement plan costs were as follows:

	1979	1978
	Thousands of Dollars	
Current service	$6,944	$5,340
Prior service	2,870	2,102
Total	$9,814	$7,442
Portion charged to construction	$3,363	$2,787

At January 1, 1979, vested benefits exceeded the pension fund assets by approximately $30,000,000.

9. SUBSIDIARY ACQUISITION:

Effective June 1, 1979, a wholly-owned subsidiary of the Company, PACOM Inc., acquired by purchase all of the outstanding stock of Alascom (formerly RCA Alaska Communications, Inc.), which provides telecommunications service in the State of Alaska and between Alaska and other points within and without the United States. Alascom's operations since June 1, 1979 are included in the consolidated financial statements.

The purchase price of $208,831,000 exceeded the value of the net assets acquired by approximately $35,226,000, with such excess being amortized over a 40-year period. The acquisition was financed by a $210,000,000 six-year term loan, for which common stock of Alascom was pledged.

Pro forma results of operations assuming acquisition of Alascom at the beginning of 1978 are as follows:

	Year Ended December 31, 1979	Year Ended December 31, 1978
	Thousands of Dollars	
Operating revenues	$703,201	$639,996
Operating expenses	527,232	461,044
Net utility operating income	175,969	178,952
Other income (deductions)—Net	55,049	34,486
Interest charges—Net	115,614	101,340
Net income	115,404	112,098
Preferred dividend requirements	19,612	17,200
Earnings applicable to common stock	$ 95,792	$ 94,898
Average number of common shares	37,692	35,319
Earnings per common share	$2.54	$2.69

10. INDUSTRY SEGMENTS:

The Companies operate principally in three domestic industry segments: electric utility, coal mining and telecommunications. Total revenue by segment includes both sales to unaffiliated customers, as reported in the Companies' consolidated income statements, and intersegment sales of coal at contract prices or mining cost.

Operating income consists of operating revenues less operating expenses. In computing operating income, none of the following items have been added or deducted: other income (deductions), except for coal mining operations; minority interest; interest charges; and federal and state income taxes.

The coal mining segment includes mines which produce coal for Company plants (see Note 1)

	1979	1978
	Thousands of Dollars	
Operating revenues:		
Unaffiliated customers:		
Electric	$487,855	$453,393
Coal mining	136,552	67,943
Telecommunications	142,360	44,698
Other	9,893	8,428
Affiliates:		
Coal mining	73,008	54,099
Eliminations	(45,908)	(35,524)
	$803,760	$593,037
As reported in the Statements of Consolidated Income:		
Utility operating revenues	$640,108	$506,519
Coal mining revenues	163,652	86,518
	$803,760	$593,037
Operating income:		
Electric	$112,829	$159,366
Coal mining	49,387	20,223
Telecommunications	44,207	17,954
Other	1,311	1,244
	207,734	198,787
Other income (deductions)	22,537	17,644
Minority interest	(4,360)	(3,829)
Interest charges	(101,914)	(73,761)
Income taxes	(11,486)	(33,054)
Net income	$112,511	$105,787

Identifiable Assets—

Identifiable assets are those assets that are used in the Companies' operations in each segment. Corporate assets are principally cash, temporary cash investments and other investments or special funds.

	Identifiable Assets		Capital Expenditures		Depreciation and Amortization	
	1979	1978	1979	1978	1979	1978
			Thousands of Dollars			
Electric	$2,277,247	$2,083,413	$230,380	$242,823	$56,157	$53,382
Coal mining	267,425	198,705	64,069	46,270	13,078	8,980
Telecommunications	519,198	131,327	58,729	17,234	20,231	7,258
Other	32,372	29,485	4,580	3,846	951	593
Corporate assets	32,545	26,992				
	3,128,787	$2,469,922	$357,758	$310,173	$90,417	$70,213

11. QUARTERLY INFORMATION (UNAUDITED):

Quarter Ended	Operating Revenues	Net Utility Operating Income	Net Income	Earnings Applicable to Common Stock	Earnings Per Common Share
	Thousands of Dollars				
March 31, 1978	$143,478	$47,313	$34,144	$30,411	$0.88
June 30, 1978	119,943	36,982	26,240	22,070	0.64
September 30, 1978	118,299	32,129	20,881	16,232	0.46
December 31, 1978	124,799	31,620	24,522	19,874	0.53
March 31, 1979	152,698	44,922	33,732	29,083	0.78
June 30, 1979	153,985	38,752	28,230	23,582	0.63
September 30, 1979	156,102	33,049	22,389	17,740	0.47
December 31, 1979	177,323	43,463	28,160	22,494	0.58

A significant portion of the business of the Companies is of a seasonal nature.

12. CHANGING PRICES (UNAUDITED):

Inflation, evidenced in part by high fuel costs and interest rates, exempts no one. Consumers struggle to stretch their budgets, while corporations strive to maintain sufficient earnings to compensate their owners and to support adequate growth. The business, regulatory, and academic communities have been developing methods for measuring the impact of inflation on business enterprises.

Recently the Financial Accounting Standards Board issued Statement No. 33, "Financial Reporting and Changing Prices," requiring large business enterprises to measure and report the effects of changing prices (inflation). The following schedules and commentary were prepared using Statement No. 33 and a FASB Utility Task Group report for guidelines. The guidelines only require disclosing the inflationary impact on certain assets and expenses. The information should be viewed as an estimate of the approximate effect of inflation, rather than as a precise measure.

Constant dollar amounts represent historical costs stated in terms of dollars of equal purchasing power, as measured by the Consumer Price Index for all Urban Consumers (CPI-U). Current cost amounts reflect the changes in specific prices of plant from the date the plant was acquired to the present, and differ from constant dollar amounts to the extent that specific prices have increased more or less rapidly than prices in general.

The current cost of property, plant, and equipment represents the estimated cost of replacing existing plant assets and was determined as follows:

Generating plant—The current cost of electric generating plant was estimated generally on the basis of an engineering study of the current cost per megawatt of replacing the Company's present mix of nuclear, coal, oil and gas turbine generating plant. Hydro production plant original cost was trended using the Handy-Whitman Index of Public Utility Construction Costs.

Transmission and distribution facilities—The Handy-Whitman Index for the several regions in which the Company operates was applied to the original cost of electric transmission and distribution facilities.

General plant—The original cost of electric general plant was trended using various government and industry cost indices.

Telecommunications plant—Telecommunications plant current cost was developed using the Handy-Whitman Index for the industry.

Water and steam heating plant—The original cost of water and steam heating plant was trended using the Handy-Whitman Index.

Construction work in progress—Projects of short duration were reported at historical cost, while longer-term projects were trended using the Consumer Price Index.

Other utility plant—Various cost indices and unit costs were used to trend miscellaneous properties.

Nonutility property—Various government and industry cost indices were used to trend nonutility property.

The provision for depreciation on the constant dollar and current cost amounts of property, plant, and equipment was determined by applying the Company's actual functional class depreciation rates to the respective class indexed plant amounts.

Fuel inventories, the cost of fuel used in generation, and purchased power have not been restated from their historical cost in nominal dollars. Regulation limits the recovery of fuel costs through the basic rate schedules to actual costs. For this reason fuel inventories are effectively monetary assets.

As prescribed in Statement No. 33, income taxes were not adjusted. Also, disclosure is not currently required for unprocessed natural resources such as unmined coal reserves.

Under the ratemaking prescribed by the regulatory commissions to which the Companies are subject, only the historical cost of plant is recoverable in revenues as depreciation. Therefore, the excess of the cost of plant stated in terms of constant dollars or current cost over the historical cost of plant is not presently recoverable in rates as depreciation, and is reflected as a reduction to net recoverable cost. While the ratemaking process gives no recognition to the current cost of replacing property, plant, and equipment, based on past practices, the Companies believe they will be allowed to earn on the increased cost of their net investment when replacement of facilities actually occurs.

To properly reflect the economics of rate regulation, the reduction of net property, plant, and equipment should be offset by the gain from the decline in purchasing power of net amounts owed. During a period of inflation, holders of monetary assets (claims to receive a fixed sum) suffer a loss of general purchasing power while holders of monetary liabilities (obligations to pay a fixed sum) experience a gain. The gain from the decline in purchasing power of net amounts owed is primarily attributable to the substantial amount of debt and preferred stock (treated as debt) which has been used to finance property, plant, and equipment. Since the depreciation on this plant is limited to the recovery of historical costs, the Company does not have the opportunity to realize a holding gain on debt and is limited to recovery only of the embedded cost of debt capital.

STATEMENT OF NET INCOME ADJUSTED FOR CHANGING PRICES
FOR THE YEAR ENDED DECEMBER 31, 1979

	Historical Cost	Constant Dollar—Average 1979 Dollars	Current Cost—Average 1979 Dollars
		Thousands of Dollars	
Utility operating revenues	$640,108	$ 640,108	$ 640,108
Utility operating expenses:			
Operation and maintenance	367,348	367,348	367,348
Depreciation	76,161	133,675	177,733
Taxes	36,413	36,413	36,413
Other income (deductions)—net:			
Depreciation	9,602	13,302	13,978
Other	(63,841)	(63,841)	(63,841)
Interest charges—net	101,914	101,914	101,914
	527,597	588,811	633,545
Net income (excluding reduction to net recoverable cost)	$112,511	$ 51,297	$ 6,563
Increase in specific prices (current cost) of property, plant and equipment held during the year			$1,065,317
Reduction to net recoverable cost		$(247,761)	(645,990)
Effect of increase in general price level			(620,087)
Excess of increase in general price level over increase in specific prices after reduction to net recoverable cost			(200,760)
Gain from decline in purchasing power of net amounts owed		211,135	211,135
Net		$ (36,626)	$ 10,375

Total depreciation expense for 1979 is $85,763,000, $146,977,000 and $191,711,000 on the historical cost, constant dollar, and current cost basis, respectively.

Including the reduction to net recoverable cost, the net loss for 1979 on a constant dollar basis would have been $196,464,000.

At December 31, 1979, current cost of property, plant and equipment, net of accumulated depreciation, was $5,793,270,000, while historical cost or net cost recoverable through depreciation was $2,781,-590,000.

FIVE-YEAR COMPARISON OF SELECTED
SUPPLEMENTARY FINANCIAL DATA ADJUSTED FOR EFFECTS OF CHANGING PRICES

	Years Ended December 31				
	1979	1978	1977	1976	1975
Historical cost information adjusted for general inflation	Thousands of Average 1979 Dollars				
Revenues:					
Utility operating revenues	$640,108	$564,583	$484,358	$452,593	$406,382
Coal mining	163,652	95,776	86,212	71,027	50,430
Net income*	51,297				
Earnings per common share*	0.85				
Reduction to net recoverable cost	247,761				
Net assets at year-end, at net recoverable cost	764,626				
Current cost information					
Net income*	6,563				
Earnings (loss) per common share*	(0.34)				
Reduction to net recoverable cost	645,990				
Excess of increase in general price level over increase in specific prices after reduction to net recoverable cost	200,760				
Net assets at year-end, at net recoverable cost	764,626				
General information					
Purchasing power gain on net monetary liabilities owed	211,135				
Cash dividends declared per common share	$ 1.93	$ 2.09	$ 2.15	$ 2.19	$ 2.25
Market price per common share at year-end	17.02	21.16	24.82	30.09	26.64
Average consumer price index	217.4	195.4	181.5	170.5	161.2

*Excluding reduction to net recoverable cost.

ACCOUNTANTS' OPINION

To the Directors and Stockholders of
PACIFIC POWER & LIGHT COMPANY:

We have examined the consolidated balance sheets of Pacific Power & Light Company and subsidiaries as of December 31, 1979 and 1978, and the related statements of consolidated income, retained earnings, and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the above-mentioned consolidated financial statements present fairly the financial position of the companies at December 31, 1979 and 1978, and the results of their operations and the changes in their financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

DELOITTE HASKINS & SELLS
Portland, Oregon
February 28, 1980

CONSOLIDATED FINANCIAL RATIOS (As of December 31)

	1979	1978	1977	1976	1975
			Thousands of Dollars		
CAPITALIZATION:					
Mortgage bonds	$1,057,119	$ 966,119	$ 971,070	$ 858,570	$ 727,694
Guaranty of pollution control bonds—net	94,295	80,615	65,478	50,425	44,062
Indirect guaranty of Wyodak Project	—	—	182,729	102,717	—
Long-term subsidiary debt	371,815	98,255	69,989	66,550	56,475
Miscellaneous	415	492	492	557	836
Unamortized premium and discount on debt	(8,045)	(7,086)	(7,435)	(5,344)	(4,586)
TOTAL LONG-TERM DEBT	1,515,599	1,138,395	1,282,323	1,073,475	824,481
Preferred stock	227,236	227,236	187,236	157,236	157,236
Redeemable preferred stock	50,000	—	—	—	—
Common stock and retained earnings	808,590	778,139	698,732	629,868	560,911
TOTAL CAPITALIZATION	$2,601,425	$2,143,770	$2,168,291	$1,860,579	$1,542,628
RATIOS:					
Mortgage bonds	40.64%	45.07%	44.78%	46.15%	47.17%
Guaranty of pollution control bonds—net	3.63	3.76	3.02	2.71	2.86
Indirect guaranty of Wyodak Project	—	—	8.43	5.52	—
Long-term subsidiary debt	14.29	4.58	3.23	3.58	3.66
Miscellaneous	0.01	0.02	0.02	0.03	0.06
Unamortized premium and discount on debt	(0.31)	(0.33)	(0.34)	(0.29)	(0.30)
TOTAL LONG-TERM DEBT	58.26	53.10	59.14	57.70	53.45
Preferred stock	8.74	10.60	8.64	8.45	10.19
Redeemable preferred stock	1.92	—	—	—	—
Common stock and retained earnings	31.08	36.30	32.22	33.85	36.36
TOTAL CAPITALIZATION	100.00%	100.00%	100.00%	100.00%	100.00%

ENERGY SALES, CUSTOMER and OTHER STATISTICS

ENERGY SALES (Thousands of kilowatt-hours):	1979	1978	1977	1976	1975
Residential	6,991,523	6,526,119	6,321,687	6,176,938	6,058,874
Commercial	4,898,733	4,465,117	4,225,552	3,927,529	3,727,996
Industrial	6,489,186	6,149,584	5,966,572	5,671,062	5,224,714
Government and Municipal	66,103	67,553	72,128	72,540	99,246
TOTAL GENERAL BUSINESS	18,445,545	17,208,373	16,585,939	15,848,069	15,110,830
Sales for resale—temporary	3,581,289	4,541,912	2,420,393	3,555,344	2,562,434
—other	796,123	736,052	668,865	597,641	562,054
Interdepartmental	20,055	15,502	16,118	12,802	13,470
TOTAL ENERGY SALES	22,843,012	22,501,839	19,691,315	20,013,856	18,248,788
Power plant output—including power purchased (Thousands of kilowatt-hours)	24,757,024	24,544,811	21,732,885	22,027,088	20,079,342
Kilowatts of generating capacity installed at year-end	3,970,181	3,631,142	3,365,645	3,365,645	2,828,837
Number of customers at year-end:					
Electric	629,569	608,728	584,616	560,178	547,307
Water	27,101	26,031	24,754	23,356	22,281
Steam heating	518	530	549	578	603
Residential electric service statistics:					
Number of customers at year-end	544,620	527,442	506,615	485,087	472,809
Kilowatt-hour sales per customer—average	13,062	12,614	12,738	12,876	12,856
Revenue per customer—average	$333.36	$316.79	$282.01	$238.06	$225.16
Telephone stations served	185,737	170,719	155,192	138,625	125,402

MARKET AND DIVIDEND INFORMATION

COMMON STOCK:

The Company's Common Stock ($3.25 Par Value) is listed on the New York and Pacific Stock Exchanges. The following table shows the high and low sales prices of the Common Stock during the respective periods indicated as reported in *The Wall Street Journal*:

	1979				1978			
Quarter:	1st	2nd	3rd	4th	1st	2nd	3rd	4th
High	21¼	22⅜	21⅞	20⅛	21½	22	23	21⅞
Low	19½	19⅝	19	17	20⅛	20⅛	21	19¼

Quarterly cash dividends were paid at the rate of 45 cents per share for the payments in the first two quarters of 1978, and at the rate of 48 cents per share in the last quarters and in the four quarters of 1979.

PREFERRED STOCK:

The following table shows the high and low sales prices of the Company's 5% Cumulative Preferred Stock, $100 Par Value, on the American Stock Exchange:

	1979				1978			
Quarter:	1st	2nd	3rd	4th	1st	2nd	3rd	4th
High	54	53½	54	51½	58½	59	57½	56½
Low	49	50	50⅛	45	55¾	53⅜	52½	48

Ten of the Company's eleven series of Serial Preferred Stock, $100 Par Value and the three series of No Par Serial Preferred (stated value, $25), are traded over-the-counter. Although the following table of quarterly price ranges for 1979 and 1978 is based on the best available bid prices for the periods indicated, the stock is closely held, except for the No Par Serial Preferred, and infrequently traded and, therefore, the prices quoted should be treated as reasonable approximations:

		1979				1978			
	Quarter:	1st	2nd	3rd	4th	1st	2nd	3rd	4th
4.52%	High	NQ	NQ	NQ	NQ	NQ	NQ	NQ	NQ
	Low	NQ	NQ	NQ	NQ	NQ	NQ	NQ	NQ
7.00%	High	69¼	69⅛	66¾	57¼	76	74⅛	76¾	75⅛
	Low	67⅜	66½	63¾	52⅛	74¾	71½	67⅞	70⅜
6.00%	High	NQ	65⅛	61⅝	53¾	NQ	NQ	NQ	NQ
	Low	NQ	61¾	58⅝	49⅞	NQ	NQ	NQ	NQ
5.00%	High	49¼	49⅜	48⅛	42½	54⅛	52⅞	54⅛	55½
	Low	48⅛	47½	46	40⅛	53⅛	51	50¼	50
5.40%	High	53¼	53⅛	51⅜	45⅞	58⅝	57¼	59⅞	60
	Low	51⅞	50⅝	49¼	43⅝	57¾	55⅛	54⅜	53⅝
4.72%	High	46⅝	46⅝	45⅜	40⅛	51⅛	49⅞	52¾	52¼
	Low	45½	44⅜	43⅜	37¾	50⅜	48⅜	47⅝	47⅜
4.56%	High	45	45	43½	38¾	49⅜	49	50⅜	50½
	Low	44¼	42⅞	41½	36½	48⅞	47¼	46	45¾
8.92%	High	88⅛	88⅛	85	76⅜	97⅛	95⅞	98	98⅛
	Low	85⅞	84⅝	81¼	72¼	95⅝	92⅜	90	89⅝
9.08%	High	89¾	89¾	87⅜	77⅛	98⅞	96½	99¾	100
	Low	87½	85⅜	83½	73	97¼	94	91⅝	91¼
7.96%	High	78½	78½	75¾	68¼	86½	84½	89⅜	88½
	Low	76½	74¾	72⅝	64⅜	85⅛	82⅜	80¼	79⅞
$2.48	High	24¼	24¼	23⅝	21¼	26¾	26⅛	25¾	25⅞
	Low	23⅝	22¾	22½	19⅜	25¾	25⅛	24¾	24⅜
$2.13	High	20¾	21⅛	20	18⅜	22⅞	22⅜	21⅞	22
	Low	20⅛	19¾	19⅛	16½	22½	21¼	21¼	20⅞
$2.29	High	22⅜	22⅜	21½	19¾		NQ	24⅞	24⅛
	Low	21⅞	21	20⅝	17¾		NQ	23	22½

NQ—*No quote available. The Company's $2.29 No Par Serial Preferred Stock was not issued until May 18, 1978.*

Quarterly cash dividends were paid on each class of the Company's Preferred Stock at their stated rates during 1979 and 1978.

DIRECTORS AND OFFICERS

BOARD OF DIRECTORS

CHARLES M. BINKLEY *Fairbanks, Alaska*
President, Alaska Riverways, Inc.

C. M. BISHOP, JR. *Portland, Oregon*
President, Pendleton Woolen Mills
Manufacture of woolen sportswear

DON C. FRISBEE *Portland, Oregon*
Chairman of the Board and
Chief Executive Officer

CLIFFORD P. HANSEN *Jackson, Wyoming*
Rancher and former Wyoming Governor and U.S. Senator

STANLEY K. HATHAWAY *Cheyenne, Wyoming*
Partner, Hathaway, Speight and Kunz, Attorneys at Law
Former Governor of Wyoming and Secretary of the Interior

DR. BETTY E. HAWTHORNE *Corvallis, Oregon*
Dean of School of Home Economics
Oregon State University

CONRAD F. LUNDGREN *Kalispell, Montana*
Co-owner, Four Seasons Motor Inn and West Glacier
Mercantile Company—Motel, stores, restaurants

LOUIS B. PERRY *Portland, Oregon*
President, Standard Insurance Company
Life, health and accident insurance

KENNETH W. SELF *Portland, Oregon*
Former Chairman of the Board, Freightliner
Corporation—Truck manufacturing

EUGENE L. SHIELDS *Yakima, Washington*
President, Shields Bag & Printing Company

A. W. SWEET *Coos Bay, Oregon*
Chairman of the Board, Western Bank

HOWARD VOLLUM *Portland, Oregon*
Chairman of the Board, Tektronix, Inc., Manufacture and
marketing of electronic display and measurement equipment

ROY A. YOUNG *Lincoln, Nebraska*
Chancellor, University of Nebraska

GENERAL COUNSEL

STOEL, RIVES, BOLEY, FRASER AND WYSE
900 S.W. 5th Avenue
Portland, Oregon

OFFICERS—Corporate Policy Group

DON C. FRISBEE *Chairman of the Board*
and Chief Executive Officer

G. ELDON DRENNAN *President and Executive*
Officer—Electric Operations

JOHN H. GEIGER *Senior Vice President*
and Chief Financial Officer

A. M. GLEASON *President of Telephone Utilities, Inc.*
and Executive Officer—Telecommunications

GERARD K. DRUMMOND *President, NERCO, Inc.*

OFFICERS—Electric Operations

G. ELDON DRENNAN *President and Executive*
Officer—Electric Operations

ALLAN C. BARTHOLOMEW *Senior Vice President*

ROBERT W. MOENCH *Senior Vice President*

BRUCE G. BEAUDOIN *Vice President*

DAVID F. BOLENDER *Vice President*

C. P. DAVENPORT *Vice President and*
Assistant to the Chairman

ELWOOD B. HEDBERG *Vice President*

R. B. LISBAKKEN *Vice President*

CHARLES O. PARKER *Vice President*

FREDRIC D. REED *Vice President*

ROBERT M. SMITH *Vice President*

JACK T. STILES *Vice President*

KARL HOFFMANN *Treasurer*

WARNE NUNN *Corporate Secretary*

DIRECTORS EMERITUS

A. S. CUMMINS *Medford, Oregon*

JOHN DIERDORFF *Portland, Oregon*

GLENN L. JACKSON *Medford, Oregon*

C. HOWARD LANE *Portland, Oregon*

PAUL F. MURPHY *Portland, Oregon*

HENRY H. PRINGLE *Medford, Oregon*

T. F. SANDOZ *Astoria, Oregon*

DONALD SHERWOOD *Walla Walla, Washington*

FISCAL AGENTS

PREFERRED STOCK

TRANSFER AGENTS AND REGISTRARS:

UNITED STATES NATIONAL BANK OF OREGON
P.O. Box 3850
Portland, Oregon 97208

MANUFACTURERS HANOVER TRUST COMPANY
4 New York Plaza
New York, New York 10015

COMMON STOCK

TRANSFER AGENTS AND REGISTRARS:

UNITED STATES NATIONAL BANK OF OREGON
P.O. Box 3850
Portland, Oregon 97208

THE CHASE MANHATTAN BANK, National Association
One New York Plaza—14th Floor
New York, New York 10015

BONDS

TRUSTEE, REGISTRAR AND PAYING AGENT:

For First Mortgage Bonds of the Company:
MORGAN GUARANTY TRUST COMPANY OF NEW YORK
30 West Broadway, New York, New York 10015

OTHER REGISTRARS AND PAYING AGENTS:

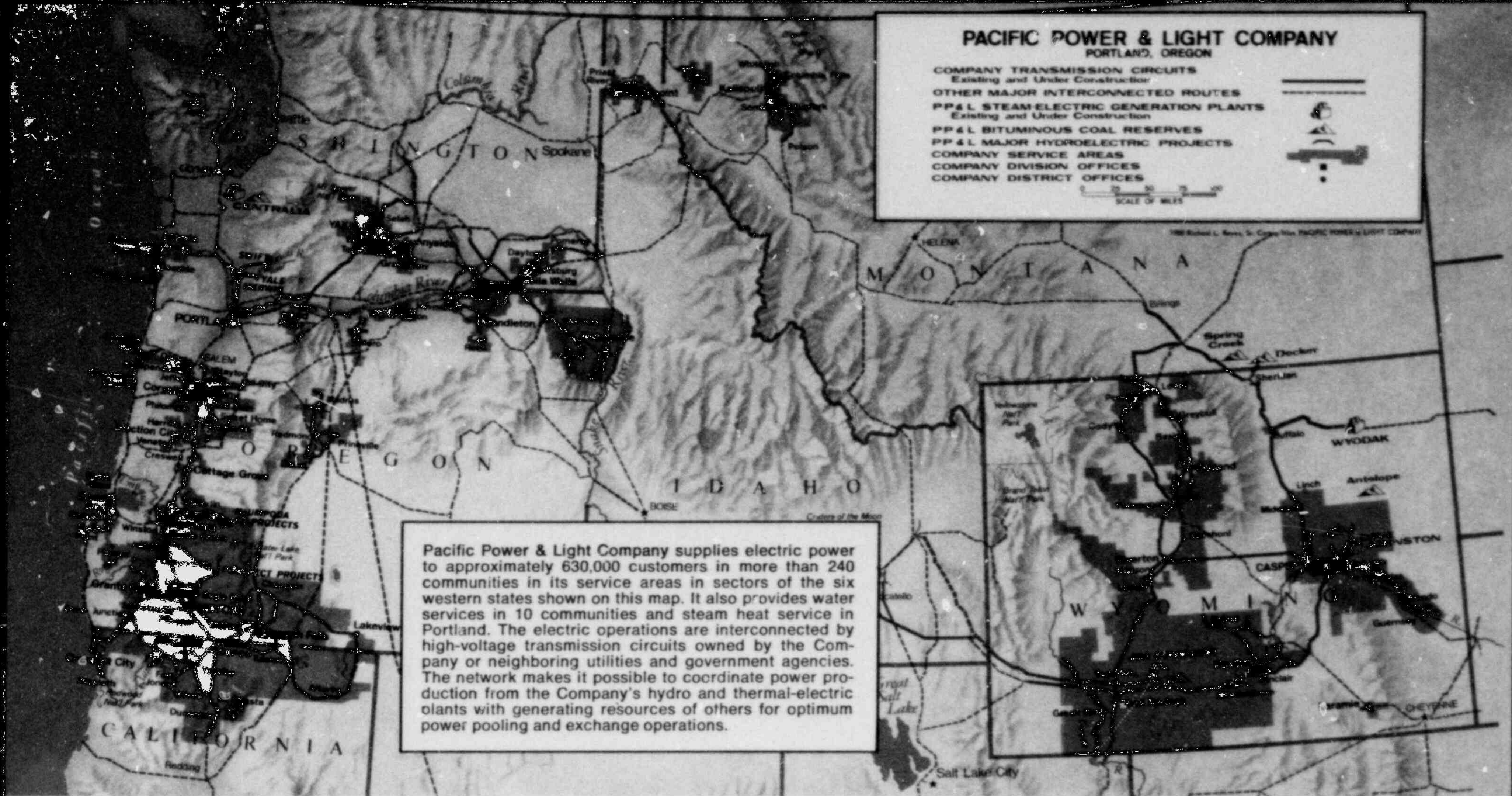
For First Mortgage Bonds of the Series Due June 1, 1981;
Oct. 1, 1982; March 1, 1984, and May 1, 1986:

WELLS FARGO BANK, National Association, San Francisco

CONTINENTAL ILLINOIS NATIONAL BANK AND TRUST COMPANY OF CHICAGO

For First Mortgage Bonds of the Series Due June 1, 1981;
Oct. 1, 1982; March 1, 1984 and May 1, 1986:

THE CHASE MANHATTAN BANK, National Association, New York



DIVISION AND DISTRICT OFFICES AND MANAGERS

MID-OREGON DIVISION

Headquarters
Portland, Oregon
Glen W. Spicer

District Offices
Albany—Richard D. Jones
Astoria—R. Dale Collins
Bend—Harold G. Baughman
Corvallis—Kenneth C. Medearis
Cottage Grove—Mike Dungan
Hood River—Roy Cederstam
Junction City—Dale Foresee
Lincoln City—Jerry A. Warner
Portland—John Reed

SOUTHWESTERN DIVISION

Headquarters
Medford, Oregon
E. E. Smith

District Offices in Oregon
Coos Bay—Jack B. Dunham
Grants Pass—John E. Mooney
Klamath Falls—William L. Scholtes
Lakeview—Dave Cavaya
Medford—Bill R. Parrett
Roseburg—Bert Leonard

District Offices in California
Crescent City—Dennis G. McFarland
Yreka—Donald E. Pierce

COLUMBIA BASIN DIVISION

Headquarters
Yakima, Washington
D. Clifford Jones

District Offices in Washington
Yakima—Robert E. Peterson
Sunnyside—R. M. Poff
Walla Walla—M. C. Edberg

District Office in Montana
Kalispell—Charles E. McQueary

District Office in Idaho
Sandpoint—Dale D. Addington

District Offices in Oregon
Pendleton—Melvin E. Joy
Enterprise—Stanley J. Walker

WYOMING DIVISION

Headquarters
Casper, Wyoming
Bruce G. Beaudoin

District Offices
Casper—Bruce Fritzler
Laramie—R. L. Blankenship
Rawlins—Robert Gerlach
Riverton—Gene Gaston
Rock Springs—Joseph R. King
Worland—Robert E. West

1979 ANNUAL REPORT

PACIFIC POWER & LIGHT COMPANY
Public Service Building
920 S.W. Sixth Avenue
Portland, Oregon 97204

Newest generating resource for the system is the fourth 500,000-kilowatt unit (at far end) placed in service in November at the Jim Bridger plant near Rock Springs, Wyoming. The plant and adjacent coal mine are two-thirds owned by Pacific Power and one-third by Idaho Power Company. The new unit features sulfur oxide removal scrubbers and particulate precipitators to meet rigid air quality codes. Other units will be retrofitted. The plumes of water vapor rise from the cooling towers that recycle water for the steam condensing system. The train is being loaded with coal that is surplus to needs of the plant and is sold to a subsidiary of Union Pacific Corporation.

Eugene Water & Electric Board
1979 Annual Report