

BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UE 170

In the Matter of)
)
 PACIFIC POWER & LIGHT)
 (dba PACIFICORP))
)
 Request for a General Rate Increase in)
 the)
 Company's Oregon Annual Revenues.)
)

DIRECT TESTIMONY OF

MICHAEL GORMAN

ON BEHALF OF

THE CITIZENS' UTILITY BOARD

AND

THE INDUSTRIAL CUSTOMERS OF NORTHWEST UTILITIES

MAY 9, 2005

1 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

2 **A.** My name is Michael Gorman and my business address is 1215 Fern Ridge Parkway,
3 Suite 208, St. Louis, MO 63141-2000.

4 **Q. WHAT IS YOUR OCCUPATION?**

5 **A.** I am a consultant in the field of public utility regulation and a principal in the firm of
6 Brubaker & Associates, Inc., energy, economic and regulatory consultants.

7 **Q. PLEASE SUMMARIZE YOUR EDUCATIONAL BACKGROUND AND**
8 **EXPERIENCE.**

9 **A.** These are set forth in Exhibit CUB-ICNU/401.

10 **Q. ON WHOSE BEHALF ARE YOU APPEARING IN THIS PROCEEDING?**

11 **A.** I am appearing on behalf of the Industrial Customers of Northwest Utilities (“ICNU”)
12 and the Citizens’ Utility Board (“CUB”). The ICNU membership and CUB represent the
13 interests of households and industrial entities with facilities served by PacifiCorp.

14 **Q. WHAT IS THE SUBJECT OF YOUR TESTIMONY?**

15 **A.** I will recommend a fair return on common equity and overall rate of return for
16 PacifiCorp.

17 **Q. PLEASE SUMMARIZE YOUR RECOMMENDATIONS.**

18 **A.** I recommend the Oregon Public Utility Commission (“OPUC” or the “Commission”)
19 award PacifiCorp a return on common equity of 9.5%. My recommended return on
20 equity for PacifiCorp is based on a constant growth Discounted Cash Flow (“DCF”), a
21 multi-stage growth DCF, Risk Premium (“RP”), and Capital Asset Pricing Model
22 (“CAPM”) analyses. These analyses estimate a fair return on equity based on observable
23 market information for a group of publicly traded electric utility companies that proxy
24 PacifiCorp’s investment risk.

1 My recommended return on common equity will provide PacifiCorp an
2 opportunity to earn a fair risk-adjusted return, maintain its bond rating, and compensate
3 PacifiCorp for incremental utility plant investments needed to maintain a reliable utility
4 infrastructure.

5 I recommend an overall cost of capital for PacifiCorp of 7.81%. This capital
6 structure is based on PacifiCorp's projected fiscal year ("FY") 2006 capital structure, less
7 a projected \$500 million equity infusion in PacifiCorp from its parent company,
8 PacifiCorp Holding Inc. ("PHI"). This projected equity infusion is not needed to
9 preserve PacifiCorp's current bond rating and its ability to attract capital to meet its
10 capital expenditure program. Indeed, credit reports indicate that PacifiCorp's actual
11 capital structure, excluding an equity infusion, is adequate to maintain its credit rating.
12 Further, there is no assurance that the equity infusion will actually be made, nor is there
13 any description of how the equity infusion will be funded. As discussed later in this
14 testimony, the proposed equity infusion will accomplish nothing more than increasing
15 PacifiCorp's cost of capital and inflating the revenue deficiency claimed in this
16 proceeding.

17 My recommended rate of return is also based on PacifiCorp's embedded cost of
18 debt and preferred equity securities of 6.351% and 6.635%, respectively, as reflected in
19 its filing.

20 Finally, in my testimony I also respond to PacifiCorp witness Dr. Samuel
21 Hadaway's testimony. Setting aside some issues I have with Dr. Hadaway's costing
22 models, I find that updating Dr. Hadaway's models using more current information and
23 reflecting projected gross domestic product rates, rather than historical gross domestic

1 product rates, Dr. Hadaway's models would support a return on equity of 9.5%, the same
2 return supported by my models.

3 **Q. WHAT IS THE IMPACT ON PACIFICORP'S CLAIMED REVENUE**
4 **DEFICIENCY BASED ON YOUR RECOMMENDED OVERALL RATE OF**
5 **RETURN?**

6 **A.** My proposed overall rate of return of 7.81%, which is based on a return on equity of
7 9.5% and the Company's FY 06 capital structure excluding the projected \$500 million
8 equity infusion, will reduce PacifiCorp's revenue requirement by \$33.9 million and
9 reduce the claimed revenue deficiency in this proceeding by the same amount.

10 **I. PACIFICORP SUMMARY**

11 **Q. PLEASE DESCRIBE PACIFICORP'S CAPITAL RESOURCES AND CREDIT**
12 **QUALITY.**

13 **A.** In a September 2004 credit report, Standard & Poor's ("S&P") summarizes PacifiCorp
14 and its relationships with its affiliates very well. CUB-ICNU/402. Gorman/1-15. The
15 following are statements made by S&P. First, PacifiCorp was acquired by ScottishPower
16 in 1999. Subsequent to that, ScottishPower reorganized by creating PHI as a non-
17 operating subsidiary of ScottishPower, which now owns PacifiCorp's common stock and
18 three other unregulated energy companies: PPM Energy (an owner of non-regulated
19 generation and gas storage assets), Pacific Klamath Energy (provider of operation and
20 maintenance services to a municipal generation facility), and PacifiCorp Group Holdings
21 ("PGHC") (a capital service company).

22 PacifiCorp's credit rating is reviewed and established in consolidation with its
23 ultimate parent company, ScottishPower, and all non-regulated affiliates. PHI's capital

1 consists of publicly traded debt of PacifiCorp and inter-company notes. There is no
2 external debt at PHI.

3 Standard & Poor's states that while PHI does not have any publicly traded debt, it
4 has assigned PHI a credit rating of A- based the rating of its parent company,
5 ScottishPower, which is needed in order for PHI to provide parent guarantee for trading
6 activities at PPM Energy.

7 II. PACIFICORP'S PROPOSED CAPITAL STRUCTURE

8 **Q. WHAT CAPITAL STRUCTURE IS THE COMPANY REQUESTING TO USE TO**
9 **DEVELOP ITS OVERALL RATE OF RETURN FOR ELECTRIC OPERATIONS**
10 **IN THIS PROCEEDING?**

11 **A.** The Company's overall rate of return was developed using the capital structure described
12 in PacifiCorp witness Mr. Bruce Williams' testimony. PPL/300, Williams/3. Mr.
13 Williams is proposing a projected capital structure for FY 2006 (the 12-month period
14 ending March 31, 2006). PacifiCorp's forecasted capital structure reflects the expectation
15 that PacifiCorp Holdings, Inc. ("PHI") will make four quarterly equity infusions in
16 PacifiCorp of \$125 million starting in June 2005, which increases PacifiCorp's common
17 equity balance by \$500 million at the end of FY 2006. Further, PacifiCorp's projected
18 capital structure reflects long-term maturity and principal amortization in the addition of
19 long-term debt Mr. Williams determined to be needed. Mr. Williams' proposed capital
20 structure is shown below in Table 1.

TABLE 1	
PacifiCorp's Proposed Capital Structure (March 31, 2006)	
Description	Percent of Total Capital
Common Equity	49.50%
Debt	49.40%
Preferred Stock	1.10%
Total Financial Capital Structure	100.00%
Source: PPL/300, Williams/3.	

1 Mr. Williams states PacifiCorp's proposed capital structure was determined based
2 on the amounts the Company believes are necessary to support the Company's capital
3 requirements and maintain its current "A-" credit rating. PPL/300, Williams/4-5.

4 **Q. IS MR. WILLIAMS' PROPOSED CAPITAL STRUCTURE REASONABLE TO**
5 **SET PACIFICORP'S RATE OF RETURN?**

6 **A.** No. Mr. Williams' proposed capital structure unreasonably increases PacifiCorp's rate of
7 return and income tax expense and hence the claimed revenue deficiency. Mr. Williams'
8 proposed capital structure should be rejected for several reasons. First, it is not known
9 and measurable whether PHI will actually make the claimed equity infusions. Hence, the
10 Company's proposed adjustment to its cost of service is not based on known and
11 measurable changes to its costs.

12 Second, a review of PacifiCorp's credit reports indicates that the capital structure
13 existing at year end 2004 is adequate to support PacifiCorp's current "A-" bond rating.
14 Consequently, Mr. Williams' proposal to increase PacifiCorp's common equity ratio is
15 not necessary in order to preserve this bond rating.

1 Third, for reasons discussed below, if there is a bona fide commitment by PHI to
2 make equity infusions, there must also be a clear demonstration from PHI that it will fund
3 the equity infusions by common equity contributions to PHI from ScottishPower, and in
4 turn ScottishPower will fund equity contributions to PHI with equity funding at
5 ScottishPower. PHI is not publicly traded and cannot access equity capital on its own. If
6 PHI funds the equity infusions in PacifiCorp by issuing more debt, PacifiCorp's credit
7 rating will likely not be enhanced, because the increased PHI debt will offset the
8 reduction to PacifiCorp's debt.

9 Stated differently, an increased equity ratio of PacifiCorp will not improve its
10 credit rating, unless there is a comparable increase in the consolidated common equity
11 ratio of ScottishPower and its affiliate companies. This is true because Standard &
12 Poor's and Moody's have clearly stated that PacifiCorp's overall credit standing is based
13 on not only PacifiCorp's credit profile, but rather the consolidated credit profile of
14 ScottishPower and all of its affiliates.

15 **Q. WHY DO YOU BELIEVE THE COMPANY HAS NOT SHOWN THAT ITS**
16 **PROJECTED EQUITY INFUSION IS KNOWN AND MEASURABLE?**

17 **A.** As noted above, PacifiCorp witness Williams simply stated that he is expecting PHI to
18 make quarterly equity infusions by the end of FY 2006. The first equity infusion is
19 planned for June 2005. Hence, there have been no equity infusions made to date, and
20 whether the actual equity infusions will happen is uncertain. Consequently, the claimed
21 equity infusions are not known and measurable.

1 **Q. WHY WILL AN INCREASED COMMON EQUITY RATIO INCREASE**
2 **PACIFICORP'S REVENUE REQUIREMENT AND CLAIMED REVENUE**
3 **DEFICIENCY?**

4 **A.** Because common equity is the most expensive form of capital and is subject to income
5 tax expense. For example, at the Company's proposed 11.125% return on equity, the
6 revenue requirement cost of common equity is actually 18.4% on a pre-tax basis
7 (11.125% times an income tax gross-up factor of 1.61% setting aside uncollectible
8 expense). In comparison, the marginal cost of debt for PacifiCorp with an "A" bond
9 rating is approximately 6%. Hence, common equity at PacifiCorp's proposed return on
10 equity on a pre-tax basis is approximately three times more expensive than debt capital.

11 PacifiCorp is proposing to increase its reliance on higher cost common equity and
12 reduce its reliance on debt. Of course, financing with an appropriate amount of debt
13 equity capital is necessary in order to minimize the Company's overall cost of capital,
14 including its cost of equity. However, as noted above and described more thoroughly
15 below, an increase in PacifiCorp's equity ratio without a comparable increase in
16 ScottishPower's equity ratio, and a corresponding reduction to the debt leverage risk of
17 the consolidated ScottishPower Company, will not likely improve PacifiCorp's credit
18 quality and lower its cost of capital. Consequently, the Company's proposal in this
19 proceeding will simply increase PacifiCorp's cost of capital by overweighting the capital
20 structure with more expensive common equity capital.

1 **Q. PLEASE EXPLAIN WHY YOU HAVE CONCLUDED THAT PACIFICORP'S**
2 **CURRENT ACTUAL CAPITAL STRUCTURE WILL SUPPORT ITS CURRENT**
3 **"A-" BOND RATING WITHOUT AN EQUITY INFUSION FROM PHI.**

4 **A.** PacifiCorp's current capital structure and financial ratios are already adequate to support
5 its bond rating. This is evident by review of credit rating reports on PacifiCorp and its
6 affiliate companies.

7 Fitch Ratings affirmed PacifiCorp's rating stating that PacifiCorp's 2004 credit
8 metric (or financial ratios) support its bond ratings:

9 [PacifiCorp's] status as a low-cost provider of electricity,
10 service territory growth, absence of non-utility operations,
11 and credit metrics ... are in-line with the rating category.
12 The ratings assume support for [PacifiCorp's] \$3 billion
13 capital spending program during fiscal 2005-2007 from its
14 direct parent, PacifiCorp Holdings, Inc. (PHI) and
15 reasonable outcomes in pending and anticipated rate cases
16 and the multi-state process (MSP).

17 CUB-ICNU/402, Gorman/16 (emphasis added).

18 Standard & Poor's states in its outlook on PacifiCorp that its 2004 financial ratios
19 support its bond rating as follows:

20 The stable outlook reflects consolidated financial ratios
21 that are adequate for the rating and steady operational and
22 financial performance at the Company's regulated
23 subsidiaries. To maintain the rating, Standard & Poor's
24 expects the company to produce cash flow coverage ratios
25 commensurate with the 'A-' level—adjusted FFO interest
26 coverage of about 4.0x and adjusted FFO to debt of 20%—
27 and to manage its U.K. generation and supply and U.S.
28 unregulated energy management business conservatively.

29 CUB-ICNU/402, Gorman/4 (emphasis added).

30 Similarly, while Moody's notes concern about PacifiCorp's ability to earn its
31 authorized return on equity, which supports its financial results, Moody's notes an

1 improving credit profile, but does not take issue with PacifiCorp's capital structure.

2 Specifically, Moody's states as follows:

3 PacifiCorp's rating outlook is negative. While the
4 Company has been successful in garnering regulatory
5 support throughout its six state service territory, financial
6 results, while improving, remain somewhat weak for the
7 current rating. Continued regulatory support should help
8 to strengthen PacifiCorp's credit fundamentals.

9 CUB-ICNU/402, Gorman/19.

10 In arriving at the conclusions described above, Standard & Poor's and Moody's
11 both estimate PacifiCorp's total adjusted debt ratio (reflecting off-balance sheet debt) in
12 the range of 55% to 60%. In the case of Standard & Poor's and Moody's, it is clear that
13 in order to improve the balance sheet strength of PacifiCorp, there must be a consistent
14 and comparable reduction in the overall consolidated debt leverage at ScottishPower,
15 PHI, as well as PacifiCorp, in order to increase PacifiCorp's credit strength. While this is
16 not necessary to support its current bond rating, this type of consolidated debt reduction
17 will be necessary in order to improve PacifiCorp's credit rating.

18 **Q. WHY DO YOU BELIEVE THAT PACIFICORP'S CREDIT RATING IS BASED**
19 **ON A CONSOLIDATED BASIS WITH SCOTTISHPOWER AND ITS**
20 **AFFILIATES?**

21 **A.** Credit reports clearly state that PacifiCorp and all of its affiliates, consolidated with
22 ScottishPower, are considered in PacifiCorp's credit review. For example, Standard &
23 Poor's states that:

24 The 'A-' corporate credit rating assigned to ScottishPower
25 and all its subsidiaries reflects the consolidated credit
26 quality of the enterprise. The A- rating on PacifiCorp's
27 senior secured debt reflects Standard & Poor's conclusion
28 in its ultimate recovery analysis of the Company's utility

1 operations that there is insufficient overcollateralization to
2 notch the debt above the corporate rating.

3
4 CUB-ICNU/402, Gorman/4 (emphasis added).

5 Moody's also notes that PacifiCorp's credit rating is tied to its ultimate parent
6 company, ScottishPower. Moody's states that:

7 The A3 senior secured rating of PacifiCorp reflects a
8 portfolio of low-cost generating assets, an extensive
9 transmission network, and an affiliation with parent
10 Scottish Power, who has implemented significant cost
11 reductions and operational efficiencies. The rating also
12 considers the Company's on-going efforts to raise rates in
13 order to improve regulated returns.

14 CUB-ICNU/402, Gorman/19 (emphasis added).

15 As a result, because PacifiCorp's credit rating is tied to the consolidated debt
16 leverage of ScottishPower and all its affiliates, including PHI, a proposed equity infusion
17 from PHI to PacifiCorp to reduce debt leverage and improve credit quality must be
18 funded by additional equity capital at the ScottishPower level. If this equity infusion is
19 funded by increasing the debt leverage at ScottishPower and PHI, it is unlikely to have a
20 positive credit rating impact on PacifiCorp. Indeed, an increased debt leverage at
21 ScottishPower and PHI, even with an increased common equity ratio at PacifiCorp, may
22 negatively impact PacifiCorp's credit rating. PacifiCorp has simply not provided
23 evidence on how PHI will fund the projected equity infusion into PacifiCorp.
24 Consequently, there can be no clear determination whether an equity infusion, if it takes
25 place, will positively or negatively impact PacifiCorp's credit rating.

1 **Q. DOES PACIFICORP'S FY 2006 CAPITAL STRUCTURE, EXCLUDING THE**
2 **PROJECTED EQUITY INFUSION, ALREADY REFLECT A REDUCTION IN**
3 **FINANCIAL LEVERAGE?**

4 **A.** Yes. PacifiCorp's leverage has been decreasing, and its common equity ratio has been
5 increasing. This is shown on Exhibit CUB-ICNU/403, Gorman/1. As shown on this
6 schedule, PacifiCorp's total equity and debt ratios of total capital increases from 38%/
7 62% at the end of calendar year 2002 to 41%/59% by the end of calendar year 2004.

8 The rating agencies have noted a decrease in the adjusted debt ratio of
9 ScottishPower and consolidated companies. Moody's estimates the consolidated capital
10 structure of PacifiCorp and its affiliates to have decreased from over 60% in calendar year
11 2002 to approximately 55% by the end of 2004. CUB-ICNU/402, Gorman/18. Standard
12 & Poor's also notes a decrease in the consolidated debt ratio of PacifiCorp and its
13 affiliates between 2002 and 2004.

14 Hence, an increase in PacifiCorp's common equity ratio, and a decrease of its total
15 debt ratio reflected at the end of calendar year 2004, and as reflected in its FY 2006
16 capital structure, appears to be consistent with the same reduction in the consolidated debt
17 ratio for ScottishPower and its consolidated companies.

18 **Q. PLEASE SUMMARIZE WHY PACIFICORP'S FY 2006 CAPITAL STRUCTURE,**
19 **EXCLUDING AN EQUITY INFUSION, IS REASONABLE FOR SETTING**
20 **RATES.**

21 **A.** This capital structure is reasonable for setting rates for the following reasons:

- 22 • It has been recognized by the credit rating agencies as supportive of PacifiCorp's
23 current bond rating.
- 24 • PacifiCorp's declining 2004 debt ratio has been mirrored by a decline to the
25 consolidated debt ratio of ScottishPower.

- PacifiCorp's FY 2006 common equity ratio is comparable to the common equity ratio of the comparable utility groups I would use to estimate PacifiCorp's current market required return on common equity, as discussed below.

Q. PLEASE COMPARE THE COMMON EQUITY RATIO YOU PROPOSE TO THE COMMON EQUITY RATIO OF THE COMPANIES IN YOUR COMPARABLE GROUP.

A. As described later in my testimony, I have proposed three comparable groups from which to estimate PacifiCorp's rate of return on common equity. The three utility groups have average common equity ratios in the range of 45.87% to 49.5%. However, it is also evident by examination of the companies in my comparable group that there is much more detailed investigation needed to assess credit quality than simple review of the common equity ratio. Nevertheless, on this one factor alone, PacifiCorp's FY 2006, excluding a projected equity infusion, common equity ratio is within the range and comparable to my proxy groups. Hence, the common equity ratio is not only supportive of PacifiCorp's current bond rating, but is indicative of the financial risk from the proxy groups from which I will estimate a fair return on common equity.

Q. WHAT CAPITAL STRUCTURE DO YOU RECOMMEND BE USED TO SET PACIFICORP'S RATE OF RETURN IN THIS PROCEEDING?

A. I recommend that the Company's projected FY 2006 capital structure be used, excluding the projected equity infusion. This capital structure is shown below in Table 2, and in Exhibit CUB-ICNU/403, Gorman/2-3.

TABLE 2	
PacifiCorp's Capital Structure (FY 2006)	
<u>Description</u>	<u>Ratio</u>
Common Equity	46.2%
Debt	52.6%
Preferred Stock	1.2%
Total	100.00%
Source: Exhibit CUB-ICNU/403, Gorman/2-3	

1 Q. ARE YOU TAKING ISSUE WITH THE COMPANY'S DEVELOPMENT OF THE
2 EMBEDDED COST OF LONG-TERM DEBT AND PREFERRED STOCK?

3 A. No.

4 III. RETURN ON COMMON EQUITY

5 Q. PLEASE DESCRIBE THE FRAMEWORK FOR DETERMINING A
6 REGULATED COMPANY'S COST OF COMMON EQUITY.

7 A. In general, determining a fair cost of common equity for a regulated utility has been
8 framed by two decisions of the U.S. Supreme Court, in Bluefield Water Works &
9 Improvement Co. v. Pub. Serv. Comm'n of West Virginia, 262 U.S. 679 (1923) and Fed.
10 Power Comm'n v. Hope Natural Gas Co., 320 U.S. 591 (1944).

11 These decisions identify the general standards to be considered in establishing the
12 cost of common equity for a public utility. Those general standards are that the
13 authorized return should: 1) be sufficient to maintain financial integrity; 2) attract capital
14 under reasonable terms; and 3) be commensurate with returns investors could earn by
15 investing in other enterprises of comparable risk.

1 **Q. PLEASE DESCRIBE WHAT IS MEANT BY “UTILITY’S COST OF COMMON**
2 **EQUITY.”**

3 **A.** The utility's cost of common equity is the return investors expect, or require, in order to
4 make an investment. Investors expect to achieve their return requirement from receiving
5 dividends and stock price appreciation.

6 **Q. PLEASE DESCRIBE THE METHODS YOU HAVE USED TO ESTIMATE THE**
7 **COST OF COMMON EQUITY FOR PACIFICORP.**

8 **A.** I have used several models based on financial theory to estimate PacifiCorp’s cost of
9 common equity. These models are: 1) the constant growth discounted cash flow
10 (“DCF”) model; 2) a multi-stage growth DCF; 3) the bond yield plus equity risk premium
11 model; and 4) a capital asset pricing model (“CAPM”). I have applied these models to a
12 group of publicly traded utilities that I have determined represent the investment risk of
13 an electric utility similar to PacifiCorp. I discuss this comparable utility group below.

14 **Q. HOW DID YOU DEVELOP A DCF ANALYSIS AND RISK PREMIUM**
15 **ESTIMATES FOR PACIFICORP?**

16 **A.** I relied on three broadly based groups of electric utility companies in the eastern, central
17 and western portions of the United States. Each of the three groups were based on the
18 following selection criteria:

- 19 • The companies were followed by The Value Line Investment Survey.
- 20 • The companies had bond ratings from S&P and Moody’s within the A and BBB/Baa
21 categories.
- 22 • They have not eliminated dividends in the last five years.

23 Each of the three geographical groups of utility companies reasonably proxy the
24 investment risk of PacifiCorp. Relying on three geographically diverse electric utility
25 groups, with the reasonable risk characteristics of PacifiCorp, provides a broadly based

group of electric utility companies to proxy PacifiCorp's investment risk. My three proxy groups are shown on Exhibit CUB-ICNU/403, Gorman/4-6.

IV. DISCOUNTED CASH FLOW MODEL

Q. PLEASE DESCRIBE THE DCF MODEL.

A. The DCF model posits that a stock price is valued by summing the present value of expected future cash flows discounted at the investor's required rate of return ("ROR") or cost of capital. This model is expressed mathematically as follows:

$$P_0 = \frac{D_1}{(1+K)^1} + \frac{D_2}{(1+K)^2} + \dots + \frac{D_\infty}{(1+K)^\infty} \quad \text{where} \quad (\text{Equation 1})$$

P_0 = Current stock price

D = Dividends in periods 1 - ∞

K = Investor's required return

This model can be rearranged in order to estimate the discount rate or investor required return, " K ." If it is reasonable to assume that earnings and dividends will grow at a constant rate, then Equation 1 can be rearranged as follows:

$$K = D_1/P_0 + G \quad (\text{Equation 2})$$

K = Investor's required return

D_1 = Dividend in first year

P_0 = Current stock price

G = Expected constant dividend growth rate

Equation 2 is referred to as the "constant growth" annual DCF model.

Q. PLEASE DESCRIBE THE INPUTS TO YOUR CONSTANT GROWTH DCF MODEL.

A. As shown under Equation 2 above, the DCF model requires a current stock price, expected dividend, and expected growth rate in dividends.

1 **Q. WHAT STOCK PRICE AND DIVIDEND HAVE YOU RELIED ON IN YOUR**
2 **CONSTANT GROWTH DCF MODEL?**

3 **A.** I relied on the average of the weekly high and low stock prices over a 13-week period
4 ending April 15, 2005. An average stock price is less susceptible to market price
5 variations than a spot price. Therefore, an average stock price is less susceptible to
6 aberrant market price movements, which may not be reflective of the stock's long-term
7 value.

8 A 13-week average stock price is short enough to contain data that reasonably
9 reflects current market expectations, but is not too short a period to be susceptible to
10 market price variations that may not be reflective of the security's long-term value.
11 Therefore, a 13-week average stock price is a reasonable balance between the need to
12 reflect current market expectations and to capture sufficient data to smooth out aberrant
13 market movements. I used the most recently paid quarterly dividend, as reported in the
14 Value Line Investment Survey. This dividend was annualized (multiplied by 4) and
15 adjusted for next year's growth to produce the D1 factor for use in Equation 2 above.

16 **Q. WHAT DIVIDEND GROWTH RATES HAVE YOU USED IN YOUR DCF**
17 **MODEL?**

18 **A.** There are several methods one can use in order to estimate the expected growth in
19 dividends. However, for purposes of determining the market required return on common
20 equity, one must attempt to estimate what the consensus of investors believes the
21 dividend or earnings growth rate will be, and not what an individual investor or analyst
22 may use to form individual investment decisions.

1 Security analyst growth estimates have been shown to be more accurate predictors
2 of future returns than growth rates derived from historical data.^{1/} Because they are more
3 reliable estimates, and assuming the market generally makes rational investment
4 decisions, analysts' growth projections are the most likely growth estimates that are built
5 into stock prices.

6 For my constant growth DCF analysis, I have relied on a consensus, or mean, of
7 professional security analysts' earnings growth estimates as a proxy for the investor
8 consensus dividend growth rate expectations. I used the average of three sources of
9 customer growth rate estimates, including Zack's Detailed Analyst Estimates, First Call,
10 and Multex Investors. All consensus analyst projections used were available on April 15,
11 2005, as reported on-line. Each consensus growth rate projection is based on a survey of
12 security analysts. The consensus estimate is a simple arithmetic average or mean of
13 surveyed analysts' earnings growth forecasts. A simple average of the growth forecasts
14 gives equal weight to all surveyed analysts' projections. It is problematic as to whether
15 any particular analyst's forecast is most representative of general market expectations.
16 Therefore, a simple average, or arithmetic mean, analyst forecast is a good proxy for
17 market consensus expectations. The growth rates I used in my DCF analysis are shown
18 on Exhibit CUB-ICNU/403, Gorman/7-9.

^{1/} See, e.g., David Gordon, Myron Gordon, and Lawrence Gould, "Choice Among Methods of Estimating Share Yield," The Journal of Portfolio Management, Spring 1989.

1 **Q. HOW DO THESE CONSENSUS ANALYST GROWTH RATE PROJECTIONS**
2 **COMPARE TO INTERNAL GROWTH RATES FOR THE COMPANIES IN**
3 **YOUR COMPARABLE GROUP AND PROJECTED GROSS DOMESTIC**
4 **PRODUCT (“GDP”) GROWTH?**

5 **A.** Quite favorably. The internal growth rate fundamentals of the companies are based on
6 projected returns on book equities and earnings retention ratios. The Company’s
7 consistent long-term growth patterns are a function of the percentage of earnings retained
8 and reinvested in the Company and the rate of return they earn on those reinvestments. A
9 chart showing a comparison of the consensus analysts’ growth rate estimates, internal
10 growth rate projections, and the consensus analysts’ five-year projection of GDP growth
11 are shown on my Exhibit CUB-ICNU/403, Gorman/10. As illustrated on this exhibit,
12 consensus analysts’ growth rate of 4.82% is reasonably comparable to the internal growth
13 rate in my comparable groups of 4.63%, both of which are somewhat less than the
14 consensus GDP growth forecast of 5.30%.

15 **Q. WHAT ARE THE RESULTS OF YOUR CONSTANT GROWTH DCF MODEL?**

16 **A.** The results of my DCF analyses are shown in Table 3 below. As shown below, my DCF
17 cost of common equity estimates using: 1) consensus analysts’ projections (my primary
18 DCF analysis); 2) internal growth rate estimates; and 3) GDP growth rate projections, are
19 as follows:

TABLE 3			
<u>DCF Results</u>			
<u>Region</u>	Consensus Growth DCF (1)	Internal Growth (2)	GDP Growth (3)
East	9.02%	8.73%	9.61%
Central	9.15%	9.36%	9.78%
West	<u>8.94%</u>	<u>8.23%</u>	<u>9.07%</u>
Average	9.04%	8.77%	9.49%
Source: Exhibit CUB-ICNU/403, Gorman/11-19.			

1 As shown above, DCF results are very consistent across the three proxy groups. I
2 placed primary reliance on the consensus growth rate DCF estimates, because I believe
3 analysts' growth projections are the most reflective of investor expectations. As shown
4 in Column 1, consensus growth rate DCF projections indicate an appropriate return for
5 PacifiCorp of 9.0%. This DCF result, however, is comparable and corroborated by the
6 results of my internal growth rate estimate, which indicates a DCF return of 8.8%, and
7 my GDP growth rate model, which produces a return of 9.5%. Based on the consistency
8 of my DCF results, and my primary reliance on the consensus growth rate DCF results, I
9 conclude that my DCF analyses estimate an appropriate common equity return for
10 PacifiCorp of 9.0%.

1 **Q. DO YOU HAVE ANY COMMENTS CONCERNING THE RESULTS OF YOUR**
2 **DCF ANALYSIS?**

3 **A.** Yes. I believe my constant growth DCF analysis, and a DCF analysis in general in
4 today's marketplace, produce reasonable results. Specifically, the consensus analysts'
5 growth rates for my comparable groups are 4.69% to 5.03%, respectively, which is
6 reasonable for several factors. First, these growth rates are reasonably consistent with
7 five-year projected GDP growth of 5.3%, and the internal growth rate estimates are
8 consistent across the three proxy groups, and across the growth rate estimates.

9 Second, the groups yield ranges from 3.91% to 4.46%. These yields are higher
10 than current five-year Treasury bonds of 3.9%, and lower than the projected five-year T-
11 note yield of 5.1%. Hence, the DCF yield reasonably reflects both current and projected
12 interest rates.

13 Third, dividend fundamentals of companies included in my comparable groups
14 show strong and consistent earnings strength in relation to dividends. This indicates that
15 current and projected earnings support dividends and permit the continued predictable
16 growth in dividends. For example, as shown on CUB-ICNU/403, Gorman/20-21, my
17 comparable groups have dividend payout ratios of approximately 60%, and dividend to
18 book ratios of approximately 7.0%. The dividend payout ratio represents the percentage
19 of earnings paid out as dividends. Traditionally, utility companies have paid out
20 approximately 70% of their earnings as dividends. Hence, payout ratios in the 60% area
21 suggest that the companies' earnings will support dividends and retain earnings to
22 produce earnings and dividend growth going forward. Also, a dividend to book ratio of
23 6.0% to 7.0% indicates that these dividend payments are affordable in today's low capital

1 cost environment. In essence, companies need to earn 6.0% on their book value in order
2 to produce earnings to pay their dividends. With authorized returns dropping in response
3 to significant declines in capital market costs, these low cost dividends will be supported
4 in today's lower authorized equity returns.

5 **V. MULTI-STAGE GROWTH DCF**

6 **Q. PLEASE DESCRIBE YOUR MULTI-STAGE GROWTH DCF MODEL.**

7 **A.** The multi-stage growth DCF model can capture the expectation that the utility dividend
8 payments do not grow at a constant rate indefinitely. For the reasons discussed above,
9 however, I do not believe this model will add significant value to the DCF estimates
10 produced by my constant growth DCF model described above. Nevertheless, a multi-
11 stage growth DCF model will provide additional information to estimate PacifiCorp's
12 current market required return.

13 In my multi-stage DCF model I assume two growth periods. The first growth
14 period captures the first four years of the model, and the second growth period includes
15 all years thereafter. For this model I used the same stock price that I used in my constant
16 growth model. For my multi-stage DCF analysis, I constructed a stream of future cash
17 flows. The initial cash flow is the observable stock price, and all subsequent cash flow is
18 the projected future dividend payments. The DCF return is the discount rate which set
19 the present value of future dividend payments equal to the initial stock price.

20 **Q. PLEASE DESCRIBE THE DIVIDENDS USED DURING THE SHORT-TERM**
21 **GROWTH PERIOD IN YOUR MULTI-STAGE GROWTH DCF.**

22 **A.** In the short-term growth period, I used Value Line's projected dividend payments for the
23 first four years of the cash flow. Value Line published a three to five-year projection for

dividends, earnings and book value. I incorporated Value Line's projected dividend payment and assumed it would be achieved in year four.

Q. PLEASE DESCRIBE HOW YOU DEVELOPED THE DIVIDEND PAYMENT DURING THE LONG-TERM GROWTH PERIOD.

A. The long-term dividend projections were developed by inflating the previous year's dividend by the long-term growth rate. My long-term growth rate was based on two analyses. First, I used Value Line's projected earnings and dividend payments to determine an earnings retention ratio, and used Value Line's projected earned return on book equity. The combination of these two factors produced an internal growth factor that is used as an estimate of the long-term sustainable growth rate. These growth rates were developed on Exhibit CUB-ICNU/403, Gorman/22-24.

Second, I used a five-year projection of the U.S. National GDP growth rate or the growth rate of the U.S. economy. This represents a maximum sustainable long-term growth rate for utility companies operating within the U.S. This is a maximum sustainable growth rate because a utility's earning cannot grow at a rate faster than the economy it operates in for a prolonged period of time. The GDP growth also makes sense in terms of reflecting growth in investments made to serve growing dividends.

Growth in demand for electric service is a reasonable proxy for utility investments in assets needed to meet growing demand. Utility earnings are based on utility investments. Hence, the utility's earnings growth would track the growth in the economy. However, it is important to note that the Energy Information Administration ("EIA") has estimated that utility sales have actually trailed the nominal GDP growth

1 rate. So, the GDP growth is a conservative high-end estimate of the maximum
2 sustainable long-term growth rate for a utility.

3 As shown on CUB-ICNU/403, Gorman/25-27, the internal growth rates for my
4 three proxy groups range from 4.46% to 4.92%. The Blue Chip Economic Indicators
5 indicate that the consensus of economists are projecting a five-year nominal GDP growth
6 rate of 5.3%.

7 **Q. WHAT ARE THE RESULTS OF YOUR MULTI-STAGE DCF GROWTH RATE?**

8 **A.** These are shown on Exhibit CUB-ICNU/403, Gorman/25-30. My multi-stage DCF
9 growth results for my three comparable groups are as follows:

	<u>Multi-Stage DCF</u>	
	<u>Internal</u>	<u>GDP</u>
	<u>Growth</u>	<u>Growth</u>
East	8.39%	9.18%
Central	7.04%	9.01%
West	<u>7.69%</u>	<u>8.61%</u>
Average	7.71%	8.93%

10 As indicated above, my multi-stage DCF results indicate a return of less than 8%
11 and up to approximately 9%. The 9% multi-stage growth estimate, which is based on a
12 maximum sustainable long-term growth rate for the utility industry, is reasonably
13 comparable to my constant growth DCF model. As I noted above, I believe the earnings
14 and dividend fundamentals of the utility industry currently support the use of a constant
15 growth model at this time. Further, the growth rates used in my constant growth are
16 supported by published analyst growth rate expectations and are likely the most reflective
17 of current market assessments of growth rate potential of utility investments. Hence, I

1 believe my multi-stage DCF model supports my constant growth DCF conclusion that a
2 9% return on equity is appropriate for PacifiCorp based on a DCF model.

3 VI. RISK PREMIUM MODEL

4 Q. PLEASE DESCRIBE YOUR BOND YIELD PLUS RISK PREMIUM MODEL.

5 A. This model is based on the principle that investors require a higher ROR to assume
6 greater risk. Common equity investments have greater risks than bonds because bonds
7 have more security of payment in bankruptcy proceedings than common equity and the
8 coupon payments on bonds represent contractual obligations. In contrast, companies are
9 not required to pay dividends on common equity or to guarantee returns on common
10 equity investments. Therefore, common equity securities are considered to be more risky
11 than bond securities.

12 This risk premium model is based on two estimates of an equity risk premium.
13 First, I estimated the difference between the required return on utility common equity
14 investments and Treasury bonds. The difference between the required return on common
15 equity and the bond yield is the risk premium. I estimated the risk premium on an annual
16 basis for each year over the period 1986 through 2004. The common equity required
17 returns were based on regulatory commission-authorized returns for electric utility
18 companies. Authorized returns are typically based on expert witnesses' estimates of the
19 contemporary investor required return.

20 The second equity risk premium method is based on the difference between
21 regulatory commission authorized returns on common equity and contemporary A-rated
22 utility bond yields. This time period was selected because over the period 1986 through
23 2004, public utility bond yields have consistently traded at a premium to book value. As

1 illustrated on CUB-ICNU/403, Gorman/31, the market to book ratio since 1986 for the
2 electric utility industry was consistently above 1.0. Therefore, over this time period,
3 regulatory authorized returns were sufficient to support market prices that at least
4 exceeded book value. This is an indication that regulatory authorized returns on common
5 equity supported a utility's ability to issue additional common stock, without diluting
6 existing shares. This is an indication that utilities were able to access equity markets
7 without a detrimental impact on current shareholders.

8 Based on this analysis, as shown on CUB-ICNU/403, Gorman/32, the average
9 indicated equity risk premium of authorized electric utility common equity returns over
10 U.S. Treasury bond yields has been 4.96%. Of the 19 observations, 12 indicated risk
11 premiums fall in the range of 4.4% to 5.7%. Since the risk premium can vary depending
12 upon market conditions and changing investor risk perceptions, I believe using an
13 estimated range of risk premiums provides the best method to measure the current return
14 on common equity using this methodology.

15 As shown on CUB-ICNU/403, Gorman/33, the average indicated equity risk
16 premium authorized electric utility common equity returns over a contemporary Moody's
17 utility bond yields was 3.54% over the period 1986 – 2004. The equity risk premium
18 estimates based on this analysis primarily fall in the range of 3.0% to 4.0% over this time
19 period.

20 **Q. HOW DID YOU ESTIMATE PACIFICORP'S COST OF COMMON EQUITY**
21 **WITH THIS MODEL?**

22 **A.** I added to my estimated equity risk premium over Treasury yields a projected long-term
23 Treasury bond yield. Blue Chip Financial Forecasts projects the 20-year Treasury bond

1 yields to be 5.7%, and a 10-year Treasury bond to be 5.3% (Blue Chip Financial
2 Forecast, April 1, 2005 at 2). Using the projected 20-year bond yield of 5.7%, and an
3 equity risk premium of 4.4% to 5.7%, produces an estimated common equity return in the
4 range of 10.1% to 11.4%, with a mid-point estimate at 10.8%.

5 I next added my equity risk premium over utility bond yields to a current 13-week
6 average yield on "A" rated utility bonds for the period ending April 11, 2005, of 5.71%.
7 This current "A" utility bond yield is developed on CUB-ICNU/403, Gorman/34.
8 Adding the utility bond equity premium of 3.0% to 4.0% to an "A" rated bond yield of
9 5.7% produces a cost of equity in the range of 8.7% to 9.7%, with a mid-point of 9.2%.

10 My risk premium analyses produce a return estimate in the range of 9.2% to
11 10.8%, with a mid-point estimate of 10.0%.

12 VII. CAPITAL ASSET PRICING MODEL

13 Q. PLEASE DESCRIBE THE CAPM.

14 A. The CAPM method of analysis is based upon the theory that the market required ROR for
15 a security is equal to the risk-free ROR, plus a risk premium associated with the specific
16 security. This relationship between risk and return can be expressed mathematically as
17 follows:

$$18 \quad R_i = R_f + B_i \times (R_m - R_f) \text{ where:}$$

19 R_i = Required return for stock i

20 R_f = Risk-free rate

21 R_m = Expected return for the market portfolio

22 B_i = Beta - Measure of the risk for stock

23 The stock specific risk term in the above equation is beta. Beta represents the investment
24 risk that cannot be diversified away when the security is held in a diversified portfolio.

1 When stocks are held in a diversified portfolio, firm-specific risks can be eliminated by
2 balancing the portfolio with securities that react in opposite direction to firm-specific risk
3 factors (e.g., business cycle, competition, product mix and production limitations).

4 The risks that cannot be eliminated when held in a diversified portfolio are
5 nondiversifiable risks. Nondiversifiable risks are related to the market in general and are
6 referred to as systematic risks. Risks that can be eliminated by diversification are
7 regarded as nonsystematic risks. In a broad sense, systematic risks are market risks, and
8 nonsystematic risks are business risks. The CAPM theory suggests that the market will
9 not compensate investors for assuming risks that can be diversified away. Therefore, the
10 only risk that investors will be compensated for are systematic or nondiversifiable risks.
11 The beta is a measure of the systematic or nondiversifiable risks.

12 **Q. PLEASE DESCRIBE THE INPUTS TO YOUR CAPM.**

13 **A.** The CAPM requires an estimate of the market risk-free rate, the company's beta, and the
14 market risk premium.

15 **Q. WHAT DID YOU USE AS AN ESTIMATE OF THE MARKET RISK-FREE**
16 **RATE?**

17 **A.** I used Blue Chip Financial Forecasts' projected 20-year Treasury bond yield of 5.7%.
18 The current 20-year bond yield is 4.74% (Blue Chip Financial Forecast, April 1, 2005 at
19 2).

20 **Q. WHY DID YOU USE LONG-TERM TREASURY BOND YIELDS AS AN**
21 **ESTIMATE OF THE RISK-FREE RATE?**

22 **A.** Treasury securities are backed by the full faith and credit of the United States
23 government. Therefore, long-term Treasury bonds are considered to have negligible
24 credit risk. Also, long-term Treasury bonds have an investment horizon similar to that of

1 common stock. As a result, investor-anticipated long-run inflation expectations are
2 reflected in both common stock required returns and long-term bond yields. Therefore,
3 the nominal risk-free rate (or expected inflation rate and real risk-free rate) included in a
4 long-term bond yield is a reasonable estimate of the nominal risk-free rate included in
5 common stock returns.

6 Treasury bond yields, however, do include risk premiums related to unanticipated
7 future inflation and interest rates. Therefore, a Treasury bond yield is not a risk-free rate.
8 Risk premiums related to unanticipated inflation and interest rates are systematic or
9 market risks. Consequently, for companies with betas less than one, using the Treasury
10 bond yield as a proxy for the risk-free rate in the CAPM analysis can produce an
11 overstated estimate of the CAPM return.

12 **Q. WHAT BETA DID YOU USE IN YOUR ANALYSIS?**

13 **A.** I relied on the group average beta estimate for the comparable group. Group average beta
14 is more reliable than a single company beta and will, therefore, produce a more reliable
15 CAPM estimate.

16 A group average beta has stronger statistical parameters that better describe the
17 systematic risk of the group than does an individual company beta. For this reason, a
18 group average beta will produce a more reliable return estimate.

19 The betas for the individual companies were derived in two ways. First, I relied
20 on The Value Line Investment Survey published beta for each of the companies in my
21 comparable groups. Second, each company's beta was calculated based on regression of
22 the weekly percent change in stock price of the individual company, to the weekly
23 percentage change in the S&P 500 over a five-year period ending April 2005. This

1 regression beta was then adjusted by Value Line's adjustment formula in order to
2 produce a forward-looking beta.^{2/}

3 The betas for each of my comparable groups is shown on Exhibit CUB-
4 ICNU/403, Gorman/35-37. The range of betas is 0.69 to 0.75. For use in this analysis, I
5 used a beta estimate of 0.70 as a reasonable proxy of electric utility betas similar to
6 PacifiCorp.

7 I believe a beta estimate of 0.70 is a reasonable utility beta for the following
8 reasons: the majority of the companies included in my comparable group have betas in
9 the range of 0.60 to 0.75. Second, any of the companies that have betas greater than 0.75
10 have experienced financial difficulties associated with unregulated business activities.
11 While these stock stresses were produced in the past and are reflected in historical betas,
12 they are not reflective of these companies' risk going forward because many of these
13 companies have scaled down or have eliminated much of their non-regulated business
14 risk. Third, it is appropriate to use a beta that is reflective mostly of the low regulated
15 risk of utility companies. Hence, a beta reflective of the majority of the companies in the
16 group is best reflective of that low regulated risk.

17 **Q. HOW DID YOU DERIVE YOUR MARKET PREMIUM ESTIMATE?**

18 **A.** I derived two market premium estimates, a forward-looking estimate and one based on a
19 long-term historical average.

20 The forward-looking estimate was derived by estimating the expected return on
21 the market (S&P 500) and subtracting the risk-free rate from this estimate. I estimated
22 the expected return on the S&P 500 by adding an expected inflation rate to the long-term

^{2/} Value Line adjusts its beta by the following formula: Adjusted Beta = .35 + (.67 * regression beta).

1 historical arithmetic average real return on the market. The real return on the market
2 represents the achieved return above the rate of inflation.

3 The Ibbotson and Associates' Stocks, Bonds, Bills and Inflation 2005 Year Book
4 publication estimates the historical arithmetic average real market return over the period
5 1926-2004 as 9.2%. A current five-year consensus analyst inflation projection, as
6 measured by the Consumer Price Index, is 2.5% (Blue Chip Financial Forecasts, October
7 10, 2005 at 15). Using these estimates, the expected market return is 11.9%. The market
8 premium then is the difference between the 11.9% expected market return, and my 5.7%
9 risk-free rate estimate, or 6.2%.

10 The historical estimate of the market risk premium was also estimated by
11 Ibbotson and Associates in the Stock, Bonds, Bills and Inflation, 2005 Year Book. Over
12 the period 1926 through 2004, Ibbotson's study estimated that the arithmetic average of
13 the achieved total return on the S&P 500 was 12.4%, and the total return on long-term
14 Treasury bonds was 5.8%. The indicated equity risk premium is 6.6% ($12.4\% - 5.8\% =$
15 6.6%).

16 **Q. WHAT ARE THE RESULTS OF YOUR CAPM ANALYSIS?**

17 **A.** As shown on Exhibit CUB-ICNU/403, Gorman/38, based on the prospective market risk
18 premium estimate of 6.2% and historical estimate of 6.6%, the CAPM estimated return
19 on equity is 10.3% and 10.0%, respectively, with a mid-point of 10.2%.

VIII. RETURN ON EQUITY SUMMARY

Q. BASED ON THE RESULTS OF YOUR RATE OF RETURN ON COMMON EQUITY ANALYSES DESCRIBED ABOVE, WHAT RETURN ON COMMON EQUITY DO YOU RECOMMEND FOR PACIFICORP?

A. Based on my analyses, I estimate an appropriate return on equity for PacifiCorp to be 9.5%.

TABLE 4

Return on Common Equity Summary

<u>Description</u>	<u>Percent</u>
Constant Growth DCF	9.0%
Multi-Stage DCF	8.9%
Risk Premium	10.0%
CAPM	10.2%

My recommended return on equity of 9.5% is at the mid-point of my estimated return on equity range for PacifiCorp of 10.0% to 9.0%. The high end of my estimated range is based on my risk premium and CAPM analyses, and the low end of my estimated range is based on my DCF analyses.

Q. WILL YOUR RECOMMENDED OVERALL RATE OF RETURN PRODUCE FINANCIAL METRICS THAT WILL SUPPORT PACIFICORP'S CURRENT A-BOND RATING FROM S&P?

A. Yes. I reach this conclusion in two ways. First, in a rating outlook on PacifiCorp, S&P stated PacifiCorp's credit rating outlook to be as follows:

The stable outlook reflects consolidated financial ratios that are adequate for the rating and steady operational and financial performance at the company's regulated subsidiaries. To maintain the rating, Standard & Poor's

1 expects the company to produce cash flow coverage ratios
2 commensurate with the 'A-' level—adjusted FFO interest
3 coverage of about 4.0x and adjusted FFO to debt of 20%—
4 and to manage its U.K. generation and supply and U.S.
5 unregulated energy management business conservatively.

6 CUB-ICNU/402, Gorman/4 (emphasis added).

7 As noted by S&P, funds from operations (“FFO”) interest coverage ratio of 4.0x
8 and an adjusted FFO to debt of 20%, along with adequate business risk reductions, will
9 be adequate to maintain PacifiCorp’s current bond rating. My recommended return on
10 equity will produce these financial metric targets.

11 These financial metric targets are developed on Exhibit CUB-ICNU/403,
12 Gorman/2-3. On page 2, I show my proposed overall rate of return for PacifiCorp, and
13 on page 3, I calculate the FFO coverage of debt interest expense and total capital. Based
14 on my recommended capital structure and a 9.5% return on equity, PacifiCorp will be
15 provided the opportunity to produce an FFO interest coverage on Oregon rate base
16 investments of 4.2x, and an FFO to total debt coverage of 21%.

17 Both of these cash coverage ratios support S&P’s targeted financial ratios
18 indicative of PacifiCorp’s current bond rating. That is, these ratios comply with S&P’s
19 published financial metric guidelines for utility companies with a business profile score
20 of 5, PacifiCorp’s current business profile score. S&P publishes financial ratios
21 appropriate for specific credit ratings based on an assessment of the utility’s business
22 profile score. Under S&P’s guidelines, the higher the business profile score, the greater
23 the business risk, and the stronger financial coverages are required to maintain a target
24 bond rating.

PacifiCorp's current S&P business profile score is 5. Based on that profile score, PacifiCorp's FFO to interest coverage ratio of 4.2 and FFO to total debt of 21% are reflective of an "A" rating to strong BBB rating. Hence, these ratios are clearly supportive of PacifiCorp's current A- rating.

IX. RESPONSE TO PACIFICORP WITNESS SAMUEL HADAWAY

Q. WHAT RETURN ON COMMON EQUITY IS PACIFICORP PROPOSING FOR THIS PROCEEDING?

A. PacifiCorp is proposing to set rates based on a return on equity of 11.125%. PacifiCorp's proposed return on equity is supported by its witness Dr. Samuel Hadaway's return on equity analysis. Dr. Hadaway recommends a return on equity for PacifiCorp of 11.125% based on the approximate midpoint of his DCF range of 10.7% to 11.4% and the low-end of his risk premium analysis (10.9% to 11.8%). PPL/200, Hadaway/21-22.

Q. DO DR. HADAWAY'S METHODOLOGIES SUPPORT HIS 11.125% RETURN ON EQUITY RECOMMENDATION?

A. No. As discussed below, an appropriate reflection of current market data incorporated in Dr. Hadaway's own analyses would produce model results that support a return on equity of 9.5%. This is discussed in more detail below.

Q. DO YOU HAVE ANY GENERAL COMMENTS CONCERNING DR. HADAWAY'S PROPOSED RETURN ON EQUITY FOR PACIFICORP IN THIS PROCEEDING?

A. Yes. Dr. Hadaway is rejecting viable and legitimate cost of equity estimates simply because he believes them to be too low. Specifically, Dr. Hadaway places no reliance on his own constant growth DCF model results because he claims the number is too low. He suggests that this estimate is too low based on the results of his risk premium analyses. However, support for such contention is without merit. An appropriate return on equity

1 should be based on reasoned judgment and complete analyses, including DCF and risk
2 premium studies.

3 It is inappropriate for Dr. Hadaway to simply reject the results of his constant
4 growth DCF model, particularly since that model was overstated by the use of excessive
5 projections of GDP growth. Further, reflecting appropriate growth rates would result in
6 his multi-stage DCF model producing results similar to his constant growth DCF model.
7 In both cases, Dr. Hadaway's own DCF analyses suggest a return on equity of 9.5% is
8 appropriate for PacifiCorp. Accordingly, it is inappropriate for Dr. Hadaway to refuse to
9 recognize the dramatic decline in capital costs that exist in today's marketplace in
10 arriving at a fair risk adjusted return for PacifiCorp in this proceeding.

11 **Q. PLEASE DESCRIBE DR. HADAWAY'S METHODOLOGY SUPPORTING HIS**
12 **RETURN ON COMMON EQUITY.**

13 **A.** Dr. Hadaway bases his return on common equity by conducting three versions of the
14 Discounted Cash Flow analysis and a utility risk premium analysis, and evaluating risk
15 premium analyses conducted by Ibbotson & Associates and a study published by Harris
16 & Marston ("H&M"). The results of his ROE analysis are shown at PPL/200,
17 Hadaway/34. I have summarized Dr. Hadaway's results below in Table 5 under Column
18 1. Under Column 2, I show the results of Dr. Hadaway's analyses adjusted for updated
19 data and more reasonable application of the models.

20 As shown below in Table 5, using updated information, more reasonable
21 estimates of gross domestic product growth, and a better proxy of estimates of a risk
22 adjusted equity risk premium appropriate for PacifiCorp, Dr. Hadaway's analyses would

support a return on equity for PacifiCorp of 9.5%. Each of Dr. Hadaway's cost of equity models will be discussed below.

TABLE 5		
<u>Summary of Hadaway's ROE Estimate</u>		
	<u>Hadaway Results</u>	<u>Adjusted Hadaway Results</u>
Constant Growth DCF – (Traditional)	9.5%	9.2%
Constant Growth – (GDP Growth)	11.2 - 11.4	9.9
Two-Stage Growth DCF	<u>10.7 - 11.0</u>	<u>9.6</u>
Estimated DCF Range	10.5 - 10.6%	9.6%
Risk Premium Utility	10.9%	10.0%
Ibbotson Risk Premium	11.2	8.3
Harris-Marston Risk Premium	11.8	<u>8.8</u>
PacifiCorp Cost of Equity	11.125%	9.2%
Source: Exhibit CUB-ICNU/403, Gorman/39-41.		

Q. PLEASE DESCRIBE DR. HADAWAY'S CONSTANT GROWTH DCF ANALYSIS.

A. Dr. Hadaway's constant growth DCF analysis is shown on his Exhibit PPL/203, Hadaway/2. As shown on that schedule, Dr. Hadaway's constant growth DCF analysis is based on a recent price, an average of three growth rates: 1) Zack's; 2) Value Line; and 3) Dr. Hadaway's estimate of the GDP.

Q. HOW DID DR. HADAWAY OVERSTATE HIS CONSTANT GROWTH DCF ANALYSIS?

A. Dr. Hadaway used a GDP growth rate of 6.6% as one of three growth rates. Dr. Hadaway's projected GDP growth rate is unreasonable. Indeed, the consensus economists project the GDP growth rate to be 5.3%, and the most recent Value Line

Investment Survey projects the nominal GDP growth rate to be 5.6%. Hence, Dr. Hadaway's use of a 6.6% GDP growth rate is out of line with these analysts and out of line with current market expectations. By overstating the growth rate used in his DCF analysis, Dr. Hadaway significantly overstated the return for PacifiCorp.

Q. HOW WOULD DR. HADAWAY'S DCF ANALYSES CHANGE IF A MARKET-BASED GDP GROWTH RATE WAS INCLUDED IN HIS ANALYSIS?

A. I updated Dr. Hadaway's DCF analyses using a GDP growth rate of 5.3%. This is the consensus analysts' five-year projected growth rate to the GDP. Using this consensus analysts' projected GDP growth rate reduces his constant growth DCF result from 9.5% to 9.2%, his long-term GDP growth rate from 11.2% to 9.9%, and his two-stage growth DCF model from 10.7% to 9.6%. The average of these three DCF models is 9.6%, very similar to my recommended return of 9.5%.

Q. PLEASE DESCRIBE DR. HADAWAY'S UTILITY RISK PREMIUM ANALYSIS.

A. Dr. Hadaway's utility bond yield versus authorized return on common equity risk premium is shown at Exhibit PPL/204. As shown on this schedule, Dr. Hadaway compares the contemporary Moody's average bond yield for utility companies and the authorized regulatory commission return on common equity over the period 1980 through 2003. Based on this analysis, Dr. Hadaway estimates an average indicated equity risk premium over contemporary utility bond yields of 2.95%. Dr. Hadaway then adjusts this average equity risk premium using a regression analysis based on an expectation that there is an ongoing inverse relationship between interest rates and equity risk premiums. Based on this regression analysis, Dr. Hadaway increases his equity risk premium from 2.95%, as reflected in his analysis, up to 4.24%. He then adds this inflated equity risk

1 premium to a projected “A” bond yield of 6.7% to produce a return on equity of 10.9%
2 for PacifiCorp.

3 **Q. IS DR. HADAWAY’S UTILITY BOND RISK PREMIUM ANALYSIS**
4 **REASONABLE?**

5 **A.** No. Dr. Hadaway has unreasonably attempted to create a forward-looking specific point
6 risk premium estimate using this historical data. This is not reasonable because the data
7 and model are not this precise. For example, interest rate volatility and inflation
8 uncertainty in the 1980s and early 1990s is not reasonably representative of interest rate
9 volatility and inflation outlooks currently and going forward. Inflation volatility or
10 uncertainty over this historical time period had an impact on utility bond yields,
11 valuations and equity risk premiums. This inflation volatility, however, is not
12 characteristic of the current economy or capital markets. The only reasonable
13 interpretation of Dr. Hadaway’s analysis is developing a general range of equity risk
14 premiums.

15 **Q. DOES DR. HADAWAY’S RISK PREMIUM ANALYSIS SUPPORT A RETURN**
16 **ON EQUITY OF 10.9% IN THIS PROCEEDING?**

17 **A.** No. His equity risk premium estimate of 4.24% is overstated and he applies this inflated
18 premium to an inflated “A” rated utility bond yield. If Dr. Hadaway’s inflated equity risk
19 premium were applied to the current cost of a A-rated utility bond of 5.7%, it would
20 produce an indicated return on equity for PacifiCorp of less than 10%. This is a similar
21 result produced by my risk premium analysis. Hence, Dr. Hadaway’s projection
22 indicates that “A” utility bond yields would increase between the time he filed his
23 testimony and the time rates in this proceeding would go into effect. However, interest
24 rates on “A” utility bonds have actually declined during this time period. Consequently,

1 it is appropriate to reflect current actual yields on A-rated utility bond yields to produce a
2 return on equity for PacifiCorp. Such an analysis indicates a 10% return on equity is
3 appropriate based on this risk premium methodology, not the 10.9% estimated by Dr.
4 Hadaway.

Q. DID DR. HADAWAY PERFORM ANY TESTS OF HIS RISK PREMIUM ANALYSIS RESULTS?

5 **A.** Yes. Dr. Hadaway compared his utility risk premium analysis to studies performed by
6 Ibbotson & Associates (“Ibbotson”) and H&M. Dr. Hadaway states that Ibbotson studied
7 the return on common stocks versus corporate bonds for the period 1926 through 2003.
8 The Ibbotson study found that the arithmetic mean risk premium was 6.2%, and the
9 geometric mean return was 4.5%. He states conservatively that using the geometric mean
10 return and a debt cost of 4.5%, would produce an indicated equity return of 11.2%.
11 PPL/200, Hadaway/26.

12 Dr. Hadaway discusses the H&M study stating that it looked at the equity
13 premium over U.S. Government bonds of 6.47%, and the equity risk premium of
14 common stocks over corporate bonds to be 5.13%. Dr. Hadaway finds that the H&M
15 study would support an equity risk premium over an A-rated corporate debt to be 11.8%
16 (6.7% debt cost and 5.13% risk premium).

17 **Q. DO THE INDICATED RISK PREMIUM RESULTS FROM THE IBBOTSON**
18 **AND H&M STUDIES SUPPORT A RETURN ON COMMON EQUITY FOR**
19 **PACIFICORP OF 11.8% AND 11.2% AS ESTIMATED BY DR. HADAWAY?**

20 **A.** No. The Ibbotson and H&M studies are based on common equity returns and equity risk
21 premiums for the overall market. Both of these studies are based on the returns for the
22 S&P 500. Dr. Hadaway did not, and cannot, show that the S&P 500 is risk comparable to

1 PacifiCorp. In fact, it is widely recognized that electric utility risk is considerably lower
2 than that of the overall market. This is evident by a review of the beta coefficients
3 measured by Value Line for utility companies. As I noted above with respect to my
4 CAPM analysis, utility company stock market risk is approximately 69% of that of the
5 overall market. Hence, the equity risk premiums derived from these two studies is
6 appropriate for the overall market, but it overstates significantly a reasonable equity risk
7 premium for a low risk regulated electric utility such as PacifiCorp. Therefore, Dr.
8 Hadaway's use of the Ibbotson and H&M studies' equity risk premiums to produce a
9 return on common equity for PacifiCorp is unreasonable and should be rejected.

10 **Q. CAN THE RISK PREMIUM STUDIES PUBLISHED BY IBBOTSON AND H&M**
11 **BE USED TO DEVELOP A COMMON EQUITY ESTIMATE FOR**
12 **PACIFICORP?**

13 **A.** Only generally. By recognizing PacifiCorp's much lower risk than that of the overall
14 market, the equity risk premiums developed by Ibbotson and H&M, of 4.5%, and 5.13%,
15 should be adjusted by a factor of approximately 70%. This 70% represents the current
16 estimate of a utility beta as published by the Value Line Investment Survey. Using a
17 70% adjustment factor to reflect PacifiCorp's lower than market risk, these studies'
18 equity risk premiums adjusted for the lower risk would be reduced to 3.2% ($4.5\% * 70\%$)
19 in the case of Ibbotson, and 3.5% ($5.13\% * 70\%$) in the case of H&M. Comparing a 3%
20 and 3.5% equity risk premium to the current cost of "A" rated electric utility bond of
21 5.3% would indicate a return on common equity of 8.3% to 8.8%.

22 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

23 **A.** Yes.

Qualifications of Michael Gorman

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. Michael P. Gorman. My business mailing address is P. O. Box 412000, 1215 Fern Ridge Parkway, Suite 208, St. Louis, Missouri 63141-2000.

Q. PLEASE STATE YOUR OCCUPATION.

A. I am a consultant in the field of public utility regulation with Brubaker & Associates, Inc., energy, economic and regulatory consultants.

Q. PLEASE SUMMARIZE YOUR EDUCATIONAL BACKGROUND AND WORK EXPERIENCE.

A. In 1983 I received a Bachelors of Science Degree in Electrical Engineering from Southern Illinois University, and in 1986, I received a Masters Degree in Business Administration with a concentration in Finance from the University of Illinois at Springfield. I have also completed several graduate level economics courses.

In August of 1983, I accepted an analyst position with the Illinois Commerce Commission ("ICC"). In this position, I performed a variety of analyses for both formal and informal investigations before the ICC, including: marginal cost of energy, central dispatch, avoided cost of energy, annual system production costs, and working capital. In October of 1986, I was promoted to the position of Senior Analyst. In this position, I assumed the additional responsibilities of technical leader on projects, and my areas of responsibility were expanded to include utility financial modeling and financial analyses.

In 1987, I was promoted to Director of the Financial Analysis Department. In this position, I was responsible for all financial analyses conducted by the staff. Among other things, I conducted analyses and sponsored testimony before the ICC on rate of return,

1 financial integrity, financial modeling and related issues. I also supervised the
2 development of all Staff analyses and testimony on these same issues. In addition, I
3 supervised the Staff's review and recommendations to the Commission concerning utility
4 plans to issue debt and equity securities.

5 In August of 1989, I accepted a position with Merrill-Lynch as a financial
6 consultant. After receiving all required securities licenses, I worked with individual
7 investors and small businesses in evaluating and selecting investments suitable to their
8 requirements.

9 In September of 1990, I accepted a position with Drazen-Brubaker & Associates,
10 Inc. In April 1995 the firm of Brubaker & Associates, Inc. ("BAI") was formed. It
11 includes most of the former DBA principals and Staff. Since 1990, I have performed
12 various analyses and sponsored testimony on cost of capital, cost/benefits of utility
13 mergers and acquisitions, utility reorganizations, level of operating expenses and rate
14 base, cost of service studies, and analyses relating industrial jobs and economic
15 development. I also participated in a study used to revise the financial policy for the
16 municipal utility in Kansas City, Kansas.

17 At BAI, I also have extensive experience working with large energy users to
18 distribute and critically evaluate responses to requests for proposals ("RFPs") for electric,
19 steam, and gas energy supply from competitive energy suppliers. These analyses include
20 the evaluation of gas supply and delivery charges, cogeneration and/or combined cycle
21 unit feasibility studies, and the evaluation of third-party asset/supply management
22 agreements. I have also analyzed commodity pricing indices and forward pricing
23

1 methods for third party supply agreements. Continuing, I have also conducted regional
2 electric market price forecasts.

3 In addition to our main office in St. Louis, the firm also has branch offices in
4 Phoenix, Arizona; Chicago, Illinois; Corpus Christi, Texas; and Plano, Texas.

5 **Q. HAVE YOU EVER TESTIFIED BEFORE A REGULATORY BODY?**

6 **A.** Yes. I have sponsored testimony on cost of capital, revenue requirements, cost of service
7 and other issues before the regulatory commissions in Arizona, Delaware, Georgia,
8 Illinois, Indiana, Iowa, Michigan, Missouri, New Mexico, New Jersey, Oklahoma,
9 Tennessee, Texas, Utah, Vermont, West Virginia, Wisconsin, Wyoming, and before the
10 provincial regulatory boards in Alberta and Nova Scotia, Canada. I have also sponsored
11 testimony before the Board of Public Utilities in Kansas City, Kansas; presented rate
12 setting position reports to the regulatory board of the municipal utility in Austin, Texas,
13 and Salt River Project, Arizona, on behalf of industrial customers; and negotiated rate
14 disputes for industrial customers of the Municipal Electric Authority of Georgia in the
15 LaGrange, Georgia district.

16 **Q. PLEASE DESCRIBE ANY PROFESSIONAL REGISTRATIONS OR**
17 **ORGANIZATIONS TO WHICH YOU BELONG.**

18 **A.** I earned the designation of Chartered Financial Analyst (“CFA”) from the Association for
19 Investment Management and Research (“AIMR”). The CFA charter was awarded after
20 successfully completing three examinations which covered the subject areas of financial
21 accounting, economics, fixed income and equity valuation and professional and ethical
22 conduct. I am a member of AIMR’s Financial Analyst Society.

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Return to Regular Format

Research:**PacifiCorp**

Publication date: 22-Sep-2004

Credit Analyst: Anne Selting, San Francisco (1) 415-371-5009

Corporate Credit Rating

A-/Stable/A-2

Outstanding Rating(s)**PacifiCorp**

Sr unsecd debt

Local currency

BBB+

Sr secd debt

Local currency

A-

CP

Local currency

A-2

Sub debt

Local currency

BBB+

Pfd stk

Local currency

BBB

Scottish Power PLC

Corporate Credit Rating

A-/Stable/A-2

Sr unsecd debt

Foreign currency

BBB+

Pfd stk

Foreign currency

BBB

Scottish Power U.K. PLC

Corporate Credit Rating

A-/Stable/A-2

Sr unsecd debt

A-

CP

Foreign currency

A-2

PacifiCorp Holdings Inc.

Corporate Credit Rating

A-/Stable/-

Scottish Power Energy Management Ltd.

Corporate Credit Rating

A-/Stable/A-2

Scottish Power Energy Retail Ltd.

Corporate Credit Rating

A-/Stable/A-2

Scottish Power Generation Ltd.

Corporate Credit Rating

A-/Stable/A-2

Scottish Power Investments Ltd.

Corporate Credit Rating

A-/Stable/A-2

SP Distribution Ltd.

Corporate Credit Rating

A-/Stable/A-2

SP Manweb PLC

[22-Sep-2004] PacifiCorp

Corporate Credit Rating	A-/Stable/A-2
SP Transmission Ltd.	
Corporate Credit Rating	A-/Stable/A-2
PacifiCorp Capital I	
Corporate Credit Rating	A-/Stable/--
Pfd stk	
Local currency	BBB
PacifiCorp Delaware LP	
Corporate Credit Rating	A-/Stable/--
Pfd stk	
Local currency	NR
PacifiCorp Group Holdings Co.	
Corporate Credit Rating	BBB/Stable/NR
Corporate Credit Rating History	
Sept. 29, 1994	A/A-1
Nov. 9, 2001	A-/A-2

■ Major Rating Factors

Strengths:

- An improving regulatory environment, as evidenced by the roughly \$100 million in retail electric rate increases that were granted in five of the six states that PacifiCorp serves, enabling the utility to strengthen its financial performance;
- A strengthened supply portfolio that should ensure that PacifiCorp's owned capacity and wholesale purchases, along with its hedging and balancing activities, are adequate to meet expected load obligations;
- Resolution over recovery of costs associated with the 2001-2002 energy crisis that will allow the utility to collect more than \$300 million in deferred power purchases, the majority of which has been collected;
- Electric rates that compare favorably to alternative regional suppliers, coupled with the absence of retail competition in all states but Oregon, where participation in retail choice is still very limited; and
- Market diversity, as reflected in PacifiCorp's sales to retail electric customers in six western states.

Weaknesses:

- The lack of a power or fuel cost adjustment mechanism in any of the states that PacifiCorp serves, coupled with reliance on a fairly high level of wholesale purchases to meet loads, which creates the potential for authorized rates to be insufficient to meet actual costs;
- Sizable capital expenditures that are driven largely by infrastructure needs along the Wasatch Front in Utah and which will peak at more than \$1 billion in fiscal 2006 and will require additional debt financing;
- PacifiCorp Holding Inc.'s (PHI) strategic focus on increasing the non-regulated operations of PacifiCorp's affiliate, PPM Energy Inc., which consist of renewable and gas-fired generation as well as gas storage operations, coupled with nonregulated activities at two of PHI's other subsidiaries; and
- The expiration of hydro licenses for much of the utility's 1,100 MW of capacity, creating uncertainties over remediation costs and potentially resulting in reductions in the operational capacity of the dams to address environmental concerns.

■ Rationale

PacifiCorp is a wholly owned subsidiary of PHI, which in turn is a nonoperating, direct, wholly owned subsidiary of U.K. utility holding company ScottishPower plc. ScottishPower acquired PacifiCorp in

1999, and PHI was created as the U.S. nonoperating subsidiary in December 2001. In addition to PacifiCorp, PHI consists of three smaller subsidiaries:

- PPM Energy Inc. (PPM) develops wind generation, sells gas-fired generation under long-term contract, and owns gas storage assets in Alberta, Canada, and Texas;
- Pacific Klamath Energy (PKE) provides operating and maintenance services to the Klamath Cogeneration plant, a 525 MW facility that is owned by the City of Klamath Falls, Ore. Through a power purchase agreement, PPM is the offtaker of about half of the generation of the plant.
- PacifiCorp Group Holdings Co. (PGHC) owns PacifiCorp Financial Services (PFS), which has investments in aircraft leasing and receives royalties from a synthetic fuel operation that it sold to the Marriott Corp. in 2001.

PacifiCorp is headquartered in Portland and serves about 1.6 million retail customers in a 136,000-square-mile service territory in portions of Utah, Oregon, Wyoming, Washington, Idaho, and California. Business is conducted under the legal names of Pacific Power and Utah Power & Light.

PacifiCorp is by far the largest company within the PHI family. In fiscal 2004 (ended March 31), the utility recorded \$943 million in operating profits. In contrast, PPM, PHI's second-largest subsidiary, recorded \$63 million in operating profits for the same year. PacifiCorp is also pivotal to the credit quality of ScottishPower as it constitutes about 45% of operating profits.

PHI's consolidated debt consists of obligations at PacifiCorp, which in fiscal 2004 totaled \$3.76 billion. Other debt outstanding at PHI's subsidiaries is limited to intercompany notes between PHI and its subsidiaries, the largest of which is between PPM and PHI for \$594 million. There is no external debt at the PHI level, and none is expected. PHI's corporate credit rating, which reflects the credit rating of 'A-' assigned to ScottishPower and its rated subsidiaries, exists to provide a parent guarantee for trading activities at PPM Energy. None of PHI's other three subsidiaries are rated by Standard & Poor's Ratings Services.

ScottishPower's business profile is supported by the low-risk nature of its regulated monopoly transmission and distribution businesses. Notably, the performance of PacifiCorp markedly improved in the past few years due to the regulatory recovery of costs relating to expensive purchased power contracts signed during the California energy crisis. PacifiCorp's financial performance is expected to remain solid. The U.K. infrastructure unit, which represents about 40% of operating profit, recently received a relatively positive draft determination from the regulator. If upheld, this determination should ensure solid financial performance for the five-year period from 2005.

The U.K. generation and supply business has benefited from enhanced margins, due primarily to higher wholesale electricity prices and an increased customer count. The unit is still subject to power supply and price risk, especially given its aggressive customer acquisition strategy. To reduce these risks, the company acquired the Damhead Creek power plant and renegotiated the Peterhead contract with Scottish and Southern Energy PLC (AA-/Stable/A-1+). The expiration of contracts with British Energy PLC (SD/-/-) in 2005 should better position ScottishPower's supply balance.

ScottishPower continues to invest in the growth of PPM Energy, the company's U.S. unregulated trading and marketing business. PPM is the fastest-growing segment of the company's operations, and in 2004 generated \$63 million, up substantially from the \$45 million earned in 2003 and the \$18 million reported in 2002.

The ratings on the consolidated ScottishPower enterprise are underpinned by the cash flow from the group's stable, regulated U.K. transmission and distribution and U.S.-based PacifiCorp businesses. Regulated business produce about 85% of ScottishPower's cash flows. The ratings on the group are also supported by: improved regulatory relationships, especially in the U.S. where PacifiCorp has received a number of favorable rate settlements; a good record of reducing costs and improving infrastructure operations performance; and a cautious approach to asset acquisition. These strengths are offset by an aggressive capital expenditure program, exposure to price volatility in the U.K. power market, a growing focus on the U.S. unregulated energy management business of PPM Energy, and the challenges of managing a geographically remote subsidiary. The capital expenditure program

should result in negative discretionary cash flow (after dividends and capital expenditure), although a sizable unrestricted cash balance should finance any shortfall. Net cash flow—funds from operations (FFO) less dividends paid—coverage of capital expenditure, mostly in regulated projects, is expected to be about 65%. Some investments are discretionary, and Standard & Poor's expects ScottishPower to limit its investment so as to maintain adjusted FFO interest coverage of about 4.0x and adjusted FFO to debt of 20%.

■ Outlook

The stable outlook reflects consolidated financial ratios that are adequate for the rating and steady operational and financial performance at the company's regulated subsidiaries. To maintain the rating, Standard & Poor's expects the company to produce cash flow coverage ratios commensurate with the 'A-' level—adjusted FFO interest coverage of about 4.0x and adjusted FFO to debt of 20%—and to manage its U.K. generation and supply and U.S. unregulated energy management business conservatively.

Short-term ratings factors.

The short-term rating on ScottishPower, ScottishPower U.K. PLC, and PacifiCorp is 'A-2'. In the short term, the companies are expected to have ample internal liquidity, owing to a steady, predictable net cash flow stream produced by regulated businesses, minimal debt maturities over the next few years, ample credit facility capacity, and more stable pricing in the Western U.S. power markets. ScottishPower's discretionary cash flow after dividends and capital expenditures are expected to be negative in 2004, but its sizable unrestricted cash balance should finance any shortfall. Cash balances, amounting to almost £845 million at June 30, 2004, are held in a variety of quickly accessible funds.

ScottishPower has sufficient liquidity to cover its outstanding debt obligations and good financial flexibility to access funds in the event of unexpected cash flow interruptions. Full capacity exists under a \$1 billion revolving credit facility, split between a \$625 million facility and a \$375 million facility, both due in 2008. ScottishPower U.K. maintains a \$2 billion euro-commercial paper program, which is mostly undrawn.

PacifiCorp has an \$800 million revolving credit facility and a \$1.5 billion domestic commercial paper program, which is mostly undrawn. At June 30, 2004, ScottishPower's long-term debt amounted to about £5.1 billion, of which about £300 million is due to mature within four years. Dividends are moderately high and expected to be equivalent to 65% of consolidated net profit.

■ Ratings Methodology

The 'A-' corporate credit rating assigned to ScottishPower and all its rated subsidiaries reflects the consolidated credit quality of the enterprise. The 'A-' rating on PacifiCorp's senior secured debt reflects Standard & Poor's conclusion in its ultimate recovery analysis of the company's utility operations that there is insufficient overcollateralization to notch the debt above the corporate credit rating.

The unsecured notes of PacifiCorp are rated 'BBB+', one notch below the corporate credit rating, reflecting the structural subordination of this debt to the substantial amount of first mortgage bonds that is senior to it.

■ Regulation

The diverse regulatory environment that PacifiCorp faces is reasonable, although the absence of a fuel and purchased power mechanism in any of the states is a rating concern, and increases the pressure on the company to manage its fuel needs very prudently and proactively. Continued regulatory support is critical to the current ratings.

The generally supportive character of PacifiCorp's regulatory environment is evident in various recent decisions. A sizable capital expenditure program, coupled with rising fuel costs and declining wholesale revenues, is pushing PacifiCorp to file near yearly rate cases to ensure that the utility's current costs are reflected in current rates. In calendar 2003, PacifiCorp filed general rate cases in Utah, Oregon, Wyoming, and Washington. In fiscal 2004, the utility was awarded roughly \$100 million in rate

increases, bringing PacifiCorp's total rate base to more than \$7 billion. Each state's rate-setting process is based on the state commission's acceptance of its allocated share of PacifiCorp's costs. Table 1 provides a breakdown of PacifiCorp's recent rate case requests and the awarded amounts. Notably, none of the state commissions have disallowed the utility's recent capital expenditures.

Table 1 Summary of PacifiCorp Rate Cases										
State	Currently authorized rate base (\$ in mil.)	% of total PacifiCorp elec. Rev. 2004	Most recent rate case date of filing	Date of decision	Original request		Amount authorized		Authorized return on equity (ROE)(%)	Anticipated Date of next GRC
					\$ in mil.	% increase in retail rates	\$ in mil.	% increase in avg. rates approved		
Utah	2,864.75	38.4%	June 2003	Dec. 2003	125.0	12.5	65.0	7.0	10.70	Aug. 2004
Oregon	2,109.56	31.6%	March 2003	Aug. 2003	57.9	4.9	8.5	1.1	10.50	TBD
Wyoming	896.90	12.8%	May 2003	March 2004	41.8	13.1	23.0	7.2	10.75	TBD
Washington	596.31	8.3%	Dec. 2003	expected Nov. 2004	26.7	13.5	pending	pending	13.25	Jan. 2005
Idaho	313.22	6.3%	Sept. 1985	April 1986	14.3	11.2	4.1	3.3	13.40	Nov. 2004
California	187.76	2.5%	Dec. 2001	Nov. 2003	16.0	29.4	4.8 + 2.8	8.75 + 4.7	10.85	TBD

TBD--To be determined.

Standard & Poor's views the regulatory environments of Oregon, Utah, and Washington as positive for the credit quality. These states constituted 78% of PacifiCorp's electric operating revenues in 2003. Both the Oregon Public Utility Commission (OPUC) and the Utah Public Service Commission (UPSC) in 2003 approved PacifiCorp's general rate cases, authorizing returns on equity of 10.5% and 10.7%, respectively, which are consistent with national averages. PacifiCorp's approved rate increase in Oregon was only \$8.5 million—a 1.1% increase in average rates—compared with an original request of \$58 million based on a forward-looking test year. (This amount was later revised to \$18 million as part of an all-party settlement.) However, PacifiCorp was also allowed to implement the new rates by Sept. 1, 2003, approximately five months earlier than scheduled, and was provided in 2004 with a one-time \$12 million merger credit.

The UPSC has also been supportive of the company, which is critical because much of the utility's planned investment will be in Utah. In conjunction with PacifiCorp's approved integrated resource plan, the UPSC issued a certificate of convenience and necessity (CCN) on March 2004 for Currant Creek, a 525 MW gas-fired facility currently under construction 75 miles south of Salt Lake City. The Currant Creek project, which will cost an estimated \$350 million (\$618/kilowatt [kW]), has been extremely controversial. Stakeholders, many of whom were among the 100 bids submitted to the utility to build the plant, have argued that the evaluation process, which was overseen by a private consultant, was unfair. While the plant will move forward, with construction having started in April, the controversy has led state regulators to consider whether PacifiCorp should be allowed to bid to self-build future resources.

Following completion of Currant Creek, PacifiCorp must apply to the commission to receive approval to place the facility into rate base and could be at risk for disallowances, particularly if all-in costs exceed the \$350 million estimate of self-build costs that the utility used to select its bid as the most cost effective. PacifiCorp is also planning an asset purchase of Lake Side, a 534 MW plant near Salt Lake City, which is expected to be online by the summer of 2007. PacifiCorp has requested a CCN from the UPSC, and a ruling is expected by December 2004. Capital costs for the plant are expected to be about \$330 million (\$667/kW). Under a cost sharing agreement between each of the states in which PacifiCorp operates, recovery of PacifiCorp's investment in the plant will be reviewed by the states. PacifiCorp serves as part of a future general rate case.

In early August, PacifiCorp filed a general rate case in Utah, seeking \$111 million, or a 9.6% retail rate increase, that is principally needed to pay for the new power plants and continue its Wasatch transmission and distribution investments. The utility is seeking an 11.125% return on equity, up from 10.7%. If approved, the rate increase would take effect in April 2005.

With respect to California, the regulatory climate faced by PacifiCorp has improved, with the California Public Utilities Commission (CPUC) pledging, for example, in early 2004 to restore and preserve investment-grade ratings for Pacific Gas & Electric (BBB-/Stable/NR), which emerged from bankruptcy in April 2004. PacifiCorp's California territory is small and limited to the largely rural and northernmost portions of the state. Given its size, the principal regulatory risk for PacifiCorp during the Western power crisis was not so much the actions taken by the CPUC but staffing limitations that prevented the resolution of the utility's December 2001 general rate case until nearly two years later. The fact that California is the least important market to the utility, as measured by revenues, and the expectation that a rate case filing will not be needed before 2007, mitigates any regulatory concerns at this time.

Wyoming and Idaho pose a measure of uncertainty to PacifiCorp's regulatory profile. These two states contributed about 19% of PacifiCorp's operating revenues in 2003. In March 2003, the Wyoming Public Service Commission (WPSC) disallowed PacifiCorp's request to recover \$91 million in purchased power costs, of which \$31 million was associated with replacement power costs incurred due to a 2002 outage at its Hunter 1 facility, a 430 MW unit located near Castle Dale, Utah, that was offline for nearly seven months. PacifiCorp has filed an appeal of the WPSC decision with the state supreme court and a complaint in federal district court, both of which are pending. In total, PacifiCorp deferred \$537 million in power costs, ultimately requesting recovery of \$415 million, of which \$303 million was ultimately approved, with Wyoming constituting the lion's share of the gap between the requested and granted amounts.

Following the disallowance, the utility sought regulatory approval for a fuel and purchased power mechanism, which the WPSC rejected in April 2004, leaving PacifiCorp exposed to regulatory risk in the form of ex-post disallowance of power and fuel costs. However, as part of its April ruling, the WPSC encouraged the company to request incremental adjustments to the net power cost calculations annually to reflect changes in purchased power costs. In early July, the utility filed such an application, requesting an \$11.8 million increase in retail rates (about 3.4%) to reflect its increases in purchased power costs. In September, the WPSC approved a settlement between PacifiCorp and several consumer and citizen groups on the application. The settlement reduces the company's original request to \$9.25 million, or an overall retail rate increase of about 2.7% for PacifiCorp's Wyoming customers, effective Sept. 15.

This increase is in addition to the WPSC's March 2004 decision in PacifiCorp's general rate case that granted the utility a \$23 million rate adjustment—an average rate increase of 7.2%—based on the utility's original request of \$42 million—or a 13% increase in rates. PacifiCorp, which has not filed a rate case in Idaho since 1985, is expected to request a rate increase at the end of 2004.

PacifiCorp faces regulatory challenges in connection with its efforts to relicense its hydroelectric dams. About 97% of PacifiCorp's 1,164 MW of hydro capacity is licensed by the Federal Energy Regulatory Commission (FERC) and substantially all of PacifiCorp's 50-year licenses to operate its 54 hydro plants that have expired or are expiring over the next few years. The company is currently engaged in a significant relicensing process that involves about 20 individual licenses and nearly all of the utility's total owned hydro plant.

The relicensing process is a political as well as regulatory process that entails sensitive resource issues. Relicensing is typically a much-contested process in the Pacific Northwest, and the company faces the greatest challenges from environmentalists for its four largest hydro systems that are located on the Umpqua, Klamath, Bear, and Lewis Rivers. Chief among the concerns is the extent to which the configuration and operation of existing dams impede fish passage and thereby reduce salmon stocks. Conservationists and other parties have argued that the dams should be substantially modified or removed. In particular, conservationists have argued that the removal of the 165 MW Klamath facilities, which includes Iron Gate, Copco 1 and 2, and JC Boyle, is both cost effective and technically feasible.

To date, PacifiCorp has been granted a license to 2033 for its 107 MW Bear River assets as well as a

2038 license for its 185 MW North Umpqua River system that includes Five North Umpqua plant, Clearwater Nos. 1 and 2, and Fish Creek units. However, some environmental groups sought a rehearing of the new license. FERC rejected this rehearing in March but the case has been appealed to the U.S. Ninth Circuit Court of Appeals. Efforts to reach a settlement for the 509 MW Lewis River system are ongoing. The company has also filed a pending application to relicense its 160 MW Klamath River hydro facility, whose license expires in 2006 and separately has reached settlements to decommission three hydro facilities that total nearly 17 MW.

Standard & Poor's has reviewed the company's confidential estimates of total costs for relicensing each hydro facility and has concluded that these costs are significant.

Hydro relicensing costs are included in a state's general rate case when the license has or is close to being extended. To date, the company has yet to file for recovery of substantial amounts of hydro costs in the rate base. While the risk of disallowance is unlikely given the value of the PacifiCorp's hydro system from an operational and resource diversity perspective, the company is in the earliest stages of requesting recovery of hydro relicensing costs, and the ultimate outcome in each jurisdiction is not known.

■ Markets

Retail markets.

PacifiCorp enjoys slightly above-average retail electric markets, the drivers of which include continued good sales growth in Utah, its largest service territory; the geographic dispersion of its service territories over six states, which provides an unusually high level of market diversity; and the economic performance of these areas, which is expected to modestly outpace U.S. economic indicators. The portion of electricity sales to residential customers, which was 39% in 2003, is average. Among the utility's top 10 retail customers there is no industrial concentration and these customers account for no more than 9% of total retail electric sales.

As shown in Table 2, Utah and Oregon territories collectively constituted more than 70% of the utility's electric operating revenues. The most important regional market for the utility is Salt Lake City. Much of the state's economic activity is concentrated in and around the Wasatch Front, which is an 80-mile mountain range that runs through the four largest counties in the Salt Lake City area. PacifiCorp serves about 37% of the metropolitan population, and in 2004, customers in Salt Lake County accounted for 22% of PacifiCorp's total customer base of 1.6 million customers.

Table 2 PacifiCorp 2003 Retail Sales, Revenues and Customers by State							
Statistic	Utah	Oregon	Wyoming	Washington	Idaho	California	Totals
Operating revenues (\$)	935,661	769,298	305,999	196,302	142,102	59,386	2,408,748
% of elec. operating revenues	38.8	31.9	12.7	8.1	5.9	2.5	100.0
MWh sales	18,640,036	12,873,008	7,522,060	3,923,620	3,207,228	806,232	46,972,184
% MWh sales	40	27	16	8	7	2	100
Billing count	744,222	499,427	172,644	126,285	63,278	45,658	1,651,514
Billing %	45	30	10	8	4	3	100
Customer count	705,486	477,642	164,023	120,776	61,758	43,384	1,573,069
Customer % to total	44.8	30.4	10.4	7.7	3.9	2.8	100.0
Population 2003	2,342,085	2,374,557	410,472	463,149	516,178	257,606	6,364,047
Service territory (square miles)	52,332	21,135	38,733	2,711	9,916	11,293	136,120
State square miles	84,990	98,386	97,818	71,303	83,557	155,959	592,013
% of State square miles	62	21	40	4	12	7	23
CAGR MWhs (2000-2004)(%)	1.8	(0.8)	1.0	1.3	2.3	2.3	0.9
CAGR MWhs (2005-2009) forecast (%)	4.1	1.0	0.5	0.9	(0.0)	2.3	2.2
HHEBI	113.5	92.2	93.5	80.7	96.4	70.9	N/A

As a western state, Utah is generally outperforming the nation but overall is not as economically strong as other southwest and mountain states such as Arizona, Nevada, Colorado, and Idaho. A significant challenge for the state is to stimulate sufficient job growth to reduce outmigration to neighboring states that offer higher wages and greater opportunities for educated workers. A key weakness in Utah is the predominance of low-paying jobs, with average wages at about 85% of the national average. Utah's non-agricultural employment growth was negative in 2002, while other states, particularly Nevada, Arizona, and New Mexico added positions; much of Utah's losses have been in higher wage jobs. However, relative to a U.S. unemployment rate of 5.9% for 12 months ended March 2004, Utah's rate of 5.5% is comparable. Positive attributes of the state economy include low business costs, aggressive state programs to attract new industries to Utah, and a young workforce.

Population growth in the Utah counties served by PacifiCorp is positive, averaging about 4% over a three-year period from 2000 through 2003. From fiscals 2000-2004, the utility's compound average annual growth (CAGR) of electric sales in Utah has been 1.8%, which is higher than U.S. averages but lower than that seen in cities such as Phoenix, Las Vegas, and Tucson. For fiscals 2005-2009, PacifiCorp is forecasting CAGR of retail electric sales in Utah to be about 4.1%, driven largely by expectations for continued expansion of population along the Wasatch Front.

Household effective buying income (HHEBI), as weighted by billings, is very high, about 114%. While typically this statistic indicates a strong affluence of the utility's service area, in the case of Utah, HHEBI indicators are in part elevated due to the significant number of wage earners per Utah household. According to the Bureau of Economic and Business Research at the University of Utah, 2000 Census data indicates that the state leads the U.S. in the number of households with three or more wage earners.

PacifiCorp's five other markets are far more rural in character and display lower income levels than Utah. This is reflected in the more modest growth in electric sales of 1.5%-2.6%. In Oregon, PacifiCorp's largest retail service areas are in the southwestern and northeastern areas of the state, and it also provides service to some smaller areas in central Oregon, totaling about 21% of the state square miles. While the state's economy has suffered significantly in the last recession, losing some 30,000 jobs, many of which were in the energy-intensive aluminum and timber industries, the state is emerging from its downturn, and enjoys a relatively diverse economy, with a good research and development presence led by Intel, the third-largest employer in the state. HHEBI for the Oregon regions served by PacifiCorp, weighted by total billings, is about 92% of the U.S. average. From fiscals 2000-2004, CAGR of retail electric sales has been a negative 0.8%. Five-year average growth of electric sales in the areas served by PacifiCorp is expected to be about 1%.

PacifiCorp also serves a large portion of Wyoming, with its markets clustered in three noncontiguous areas of the state that include the southwest, northeast, and central sectors of the state and spans 40% of its area. Wyoming is heavily dependent on mining and government, its two top income-generating industries. Mining royalties make up nearly one-fifth of the state's budget, and thus the state's prosperity is significantly decoupled from national trends, instead being directly linked to the boom bust cycle of the mining and extraction industry. Despite overall low economic indicators, PacifiCorp serves some of the more prosperous areas in the state and HHEBI weighted by billings is about 94% of the U.S. average. From fiscals 2000-2004, compound average annual growth of electric sales has been about 1%. Five-year average growth of electric sales in the areas served by PacifiCorp is expected to be a low 0.5%.

Washington, Idaho, and California collectively constituted about 17% of PacifiCorp's electric sales in 2003. The utility serves a very small portion of Washington—(about 4% of the state's area), as well as the portions of eastern Idaho (about 12% of the state's area) and the sparsely populated very northern parts of California that border Oregon border (about 7% of the state's area). From fiscals 2000-2004, CAGR of retail sales have been 1.3% for Washington and 2.3% for both Idaho and California. Five-year average growth of electric sales is expected to be nearly 1% in Washington, negligible in Idaho, and about 2.3% in California. HHEBI indicators for these areas are all under the national average.

The weaker prospects for economic sales and overall less robust market characteristics of the

regions of these three states served by PacifiCorp are somewhat offset by the diversity of the regions PacifiCorp serves, reducing vulnerability to a single economy and the industries that support it. Although it is clear that a good deal of PacifiCorp's prospects for future growth is closely tied to the performance of Utah's economy, few U.S. investor-owned utilities enjoy such a range of service territories.

Wholesale sales.

In addition to its retail sales, PacifiCorp also earns sizable revenues from wholesale sales. In 2003, for example, the utility sold 62 million megawatt-hours (MWh), of which 47 million MWh were to retail loads, and the balance, 15 million MWh (24 percent), was wholesale. PacifiCorp's wholesale sales contributed \$528 million of total revenues of \$3.2 billion in fiscal 2004, which is consistent with 2003. This large level of sales is attributable to PacifiCorp's sale of surplus hydro capacity in the spring months as well as to commitments made under long-term contracts that stem from PacifiCorp's buildout of excess coal generation in the 1980s. As a result of these long-term contractual commitments, as PacifiCorp's native load has grown, particularly in Utah, it has had to either purchase additional long-term supplies to meet retail requirements or, as discussed further below, develop new generation projects. Given PacifiCorp's load growth and its roughly balanced supply and demand position, the utility is not actively engaged in long-term soliciting of additional sales, and any commitments are permitted as a function of available surplus.

■ Operations

Owing to its very low cost coal plants, PacifiCorp's thermal generation diversity, and an attractive portfolio that includes hydro, the utility enjoys an above-average power supply portfolio. It also benefits from a lack of exposure to nuclear power and an ownership or participation interest in 16 coal and gas facilities, which provides good portfolio diversity.

Current supply demand balance and resource mix.

At March 31, 2004, PacifiCorp owned or had interests in roughly 8,400 MW of nameplate capacity. Power purchases and exchanges provided an additional 2,590 MW, of which 1,978 MW is firm. As a result, the utility's 10,892 MW of resources slightly exceeded its summer peak load obligations of 10,791 MW, which includes both retail and firm wholesale sales obligations, and a 7% reserve margin. Load growth and a slight reduction of firm contracts are expected to result in PacifiCorp being roughly balanced between its retail and wholesale peak demand obligations and owned and contracted supply through 2007. As discussed in further detail below, the addition of two new Utah plants will add 1,059 MW incrementally from summer 2005 through summer 2007 and will result in the utility being long on peaking resources by about 502 MW in 2007.

PacifiCorp's resource portfolio is concentrated in coal, which in fiscal 2004 provided the utility with 68% of the energy needed to meet retail loads and firm wholesale commitments. Hydro, gas-fired plants and renewable resources collectively supplied about 10%, with purchases providing the balance. PacifiCorp owns hydro assets in all six of the states it serves, which provides an important resource for providing peaking resources. Fiscal 2004 was a below-average hydro year for the Pacific Northwest and, as a result, production is down slightly by 4.2%.

PacifiCorp typically purchases about 20 percent of its energy needs. In the recent past, PacifiCorp's financial performance was stressed as a result of a resource procurement strategy that was forced to rely on power purchases during the peak of the Western electricity crisis in 2001 and 2002. In November 2000, the utility's single largest unit, the 430 MW Hunter No. 1 coal facility, experienced a seven-month forced outage. Typically, the utility relies on its coal generation to supply about 70% of its energy requirements in a typical year, but during 2002, its thermal facilities supplied just 63% of requirements. And, during late 2001 and early 2002, hydro supplies were about 4% of total supplies, as opposed to about 6% seen in a typical year. As a result, during extreme price volatility, PacifiCorp purchased about 33% of its energy requirements. In response to escalating wholesale prices and its market exposure, the company entered into forward contracts with counterparties that were executed before the FERC's imposition of price caps for 11 Western states on July 19, 2001. The price caps dampened wholesale prices and the company was faced with out of the money contracts, which did not roll off until the mid-2003.

In fiscal 2004, about 22% of PacifiCorp's energy requirements were purchased, and of this quantity, about 8 percent are long-term purchases (of which more than half are under fixed price arrangements) and 14 percent are shorter term. This level of wholesale purchases is consistent with 2003, when purchases were about 23%, and forecast purchases are expected to remain at this level through 2006. Many of its contracts are for hydro capacity with various Pacific Northwest public utility districts that generally have investment grade credit. The utility's purchases are not concentrated with any one supplier and consist of investor-owned utilities, public utility districts, and qualifying facilities. Although the longest agreement extends into 2029, the majority of the utility's purchases are of intermediate length. PacifiCorp's two largest purchases are with Hermiston Generation Co. and TransAlta Energy Marketing (BBB-/Stable/-). PacifiCorp has an undivided 50% interest in Hermiston, which is a 474 MW plant in Oregon, and it procures all power and purchases the balance of the plant's output under a long-term contract.

In 2002, PacifiCorp entered into a 15-year operating lease for a 215 MW generation plant with West Valley Leasing Co. LLC, which is a subsidiary of PPM. PacifiCorp has an option to terminate the lease in 2005 and 2008. While the recent addition of gas-fired generation as well as plans to build new gas assets in Utah should reduce utility peak purchases, a significant disruption in the wholesale markets continues to pose a threat to the utility, particularly when considered against its lack of power cost adjustment mechanisms.

Production costs.

PacifiCorp's average variable and fixed cost of production, weighted by generation, was a very low \$15.66/MWh in 2003, reflecting the utility's efficient coal plants and low cost hydro. The company has been targeting improved operating performance as a priority, which in fiscal 2004 resulted in a 1.7% increase in megawatt hours of production of PacifiCorp's thermal plant. This enhanced performance offset reduced output from the utility's hydro facilities.

Given the prominence of coal in the utility's portfolio, an important credit concern is the stability of PacifiCorp's coal supply and the price of this supply. Under long-term arrangements, the utility owns or leases from private parties and the Bureau of Land Management (BLM) much of the coal reserves that fuel its plants. For example, two-thirds of the supply for the company's largest coal plant, Jim Bridger (2,120 MW), is provided by an adjacent mine operated by Bridger Coal Co., a joint venture between Pacific Minerals Inc., a subsidiary of PacifiCorp, and Idaho Power Co., which has a one-third ownership in the Jim Bridger coal plant. The coal company pays royalties to the BLM and to private parties. The balance of coal for the Jim Bridger plant is supplied by the Black Butte mine under a contract that has both escalated and fixed pricing and expires in 2009. Through ownership or lease, as of March 31, 2004, the utility had an estimated 225 million tons of recoverable coal reserves under lease or ownership arrangements, against an annual use of about 25 million tons. PacifiCorp also relies on spot and contract purchases for some of its requirements.

PacifiCorp does have some exposure to rising coal prices given that several of its largest contracts have reopeners in the next three to five years. Specifically, in addition to the Jim Bridger contract, the utility's coal supply agreements for about 80% of the coal supply at Hunter has a reopener in 2007, and PacifiCorp's 700 MW Naughton plant in Wyoming has a reopener in January 2006.

New generation.

PacifiCorp is required to establish an integrated resource plan that solicits competitive bids to serve future loads. PacifiCorp issued a request for proposals (RFP) in June 2003 that sought bids for the construction of gas-fired resources to meet growing Utah loads. Through the process, PacifiCorp has elected to self-build Currant Creek, a new 525 MW gas-fired combustion turbine plant south of Salt Lake City. Currant Creek will be brought online in two phases, with two 140 MW (280 MW total) simple cycle turbines coming online in summer 2005 and the balance consisting of two heat recovery steam generators and steam generation turbines, which will be added in the spring 2006. Construction began in March.

In May, PacifiCorp also announced that it has entered into an asset purchase and sale agreement with Summit Vineyard LLC of Denver to develop and construct a 534 MW gas-fired combined-cycle combustion turbine near Salt Lake City. The Lakeside plant is expected to come online in the summer of 2007. Construction will be led by Siemens Westinghouse Power Corp.

With these two new resources, PacifiCorp expects to be slightly long through 2007, but will need at least 600 MW beginning in 2008. The company plans to issue an additional RFP in 2004 calling for bids to procure resources that can be delivered to PacifiCorp's service territories in Utah, southwest Wyoming, or southeast Idaho. In addition, in February 2004, the utility issued a RFP for 1,000 MW of economic renewable resources, in response to OPUC's directive that the utility build a greener portfolio. The utility has not yet published results of this RFP.

Risk management.

As with other electric utilities, PacifiCorp is exposed to natural gas and power price and volume volatility. In fiscal 2004, for example, 54% of the operating expenses of \$2.1 billion (excluding depreciation and amortization) were for power and fuel costs. The company strives to maintain a balanced or slightly long position to protect against unexpected events resulting from weather, forced outages, transmission constraints, and low hydro years. Through financial and physical contracting, the utility's exposure to commodity price fluctuations is relatively modest. Its five-day, 99% value at risk (VaR) for natural gas and electric purchases and sales is expected to be \$16 million through 2006. Its VaR for the fiscal year ended March 31, 2004, was \$18 million, but has been as high as \$23 million over the year and as low as \$8 million.

The company engages in only limited pure trading and marketing activities, with most sales related to the buying and selling of power to optimize its assets. PacifiCorp's risk management policies do not allow speculative trading or position taking, but do allow for some arbitrage trading, for example back-to-back buy/sell trades. In addition, most of PacifiCorp's wholesale sales are system firm, allowing the utility to cut deliveries without penalty if there is a force majeure event on its system. The company also maintains a general policy of being balanced or long during periods of high demand.

PacifiCorp's current policies are to fully hedge its gas purchases to achieve a balanced or slightly long position two years out. As a result, the gas supply required to meet the utility's average expected daily burn rate of 102,000 MMBTUs is fully hedged through 2006 via the use of fixed price, forward, physical purchases. With the addition of Currant Creek and Lakeside, which together will add 1,059 MW of new gas generation by 2007, gas purchase requirements are expected to be at least 195,000 MMBTUs per day. The company is re-evaluating its hedging strategies to incorporate physical and financial hedging mechanisms. To manage hydro risk, the utility has entered into a five-year stream flow budget hedge with Aquila Merchant Services that makes a payment to the utility in dry years and requires a payment from the utility in wet years. The agreement expires September 2006.

■ Competition

The competitiveness of PacifiCorp's retail rates, coupled with an absence of retail competition in the five of six states it operates in, is a clear credit attribute. Owing to its resource mix of efficient coal resources and significant low-cost hydro assets, as well as company efforts to cut costs, PacifiCorp's rates are low in all six states and, unusually, in nearly all the customer classes it serves. In all states, the utility's 2003 residential, commercial, and industrial rates were all highly competitive. Also notable is the absence of retail competition in all states but Oregon, where choice was introduced in the spring of 2002, but interest has been nominal.

While retail rates are very favorable, the combination of bringing new generation online, investing significantly in infrastructure in growing areas of service territory, rising fuel and purchased power costs, clean air investments, hydro relicensing costs, as well as rising medical insurance and pension costs are expected to put significant pressure on retail rates in the coming decade.

■ Financial

In line with Standard & Poor's consolidated ratings methodology, ScottishPower U.K.'s financial position is analyzed on a consolidated basis, including PacifiCorp and all other group businesses.

ScottishPower's financial policy is moderately aggressive. An onerous capital investment program geared at numerous growth projects is expected to markedly increase the company's debt balance. The sale of Southern Water Services enabled the company to reduce its debt, which had increased partly as

a result of the merger with PacifiCorp. Adjusted average total debt to total capital at the consolidated ScottishPower group is poor at about 61%, but is projected to decline to about 56% in fiscal 2005. Adjusted average total debt to total capital at PacifiCorp is about 58%.

Profitability and cash flow.

About 85% of operating profits and cash flow derive from ScottishPower's regulated businesses. Profit margins and cash flow protection measures for the group have been restored as PacifiCorp has been able to recover much of its deferred power costs incurred during the Western energy crisis as well as increase its regulated rate base. In addition, improvement of the utility's power supply and demand imbalance that persisted through much of the California energy crises has occurred. Moreover, margins from energy supply operations in the U.K. in recent years have increased. Ongoing support is provided by a diverse and predictable regulated revenue stream, the substantial rebalancing of PacifiCorp's demand with generation following commissioning of new generating capacity, and the ongoing delivery of significant cost savings at both operating utilities. The "Transition Plan" at PacifiCorp has delivered significant cumulative cost savings of more than \$250 million, with this figure still expected to rise.

More than one-half of the company's sizable capital expenditure plan (projected at about £1.1 billion in fiscals 2004 and 2005) will be targeted at growth projects in electricity generation and networks and gas storage. Although projected capital expenditure is geared primarily toward low-to-moderate risk regulated projects, net cash flow coverage is expected to be low, and so Standard & Poor's expects ScottishPower to limit its investment so as to maintain FFO interest coverage of about 4.0x. Pretax interest coverage will remain modest at between 3.2x and 3.5x for the consolidated group, despite rising interest charges reflecting its increasing debt profile.

Capital structure and financial flexibility.

ScottishPower's onerous capital investment program is expected to markedly increase the company's debt balance. Net debt was reduced to about £4.3 billion at March 31, 2004, resulting in a balanced capital structure. However, debt will rise in line with the company's capital expenditure program. More than 80% of outstanding debt (about 70% is fixed rate) has a maturity of five years or more, which is conservative and reflects the long-term assets of the underlying business. In addition, the company's debt maturity profile has improved with the repayment of short-term borrowings. ScottishPower's recent \$700 million convertible bond issue was structured in perpetual subordinated form and therefore receives a degree of equity credit.

ScottishPower maintains considerable short-term flexibility under its liquidity lines, and seeks to reduce refinancing risk by issuing longer-term debt that matches the life of its assets. Standard & Poor's expects ScottishPower to maintain significant cash balances until March 2005, when the use of committed backup facilities will be restored. The company has adequate cash balances and sufficient capacity under its \$1 billion in revolving credit facility. Adequate borrowing capacity at the operating companies exists because ScottishPower U.K. maintains a \$2 billion euro-commercial paper program and PacifiCorp has a \$1.5 billion domestic commercial paper program and an \$800 million revolving credit facility.

PHI's balance sheet reflects at March 31, 2004, intercompany acquisition related debt consisting of binding payment obligations equivalent in substance to \$2.375 billion of medium term notes bearing interest of 6.75% and maturing between 2012 and 2017. Further, since Standard & Poor's looks at financials on a consolidated basis for ScottishPower, this transaction has no impact on the financial ratios. In the event that dividends from the operating subsidiary do not allow PHI to make interest or principal payments to ScottishPower, these obligations would be restructured by SP. However, to date, all obligations have been met on a timely basis and forecasts indicate that this will continue to be the case.

Table 3 Scottish Power Group Inc./PacifiCorp					
(£ in millions)					
	2004	2003	2002	2001	2000

Gross revenues	5,797.1	5,273.8	6,314.1	6,349.3	4,115.0
Net income	537.9	482.6	(987.1)	307.5	885.0
Funds from operations (FFO)	1,152.0	938.9	926.2	802.7	770.5
Net capital expenditures (capex)	844.0	666.4	1,167.8	1,046.3	862.2
Total debt	5,071.8	4,985.6	6,589.2	5,515.3	5,026.8
Preferred stock	0.0	0.0	0.0	0.0	0.0
Common equity	4,751.8	4,712.2	4,818.1	6,179.0	5,863.0
Total capitalization	9,823.6	9,697.8	11,407.3	11,694.3	10,889.8
Ratios					
Adjusted pretax interest coverage (x)	2.9	2.5	1.7	1.8	2.2
Adjusted FFO interest coverage (x)	4.3	3.1	3.0	3.0	3.9
Adjusted FFO/average total debt (%)	19.8	14.4	14.4	15.2	20.4
Net cash flow/capex (%)	136.3	165.5	7.6	49.1	33.5
Adjusted total debt/total capitalization	60.6	58.6	64.7	47.2	46.2
Return on average equity (%)	11.4	10.1	(18.0)	5.1	20.0
Common dividend payout (%)	73.3	108.5	(50.3)	156.7	46.1

Table 4 Peer Comparison					
	ScottishPower Group (including PacifiCorp)	National Grid Transco PLC	Scottish and Southern Energy PLC	Endesa S.A.	Energie Baden Wuerttemberg AG
Country	United Kingdom (UK)	UK	UK	Spain	Germany
Credit Rating	A-/Stable/A-2	A/Stable/A-1	AA-/Stable/A-1+	A/Negative/A-1	A-/Stable/A-2
Year of Data	2004	2003	2003	2003	2003
(£ in millions)					
Gross revenues	5,797.1	9,400.0	4,065.3	16,644.0	10,609.0
Net income	537.9	391.0	446.2	1,312.0	(1,193.0)
Funds from operations (FFO)	1,152.0	2,509.0	618.6	4,050.0	593.0
Net capital expenditures (capex)	844.0	1,923.0	237.1	2,400.0	754.0
Total debt	5,071.8	14,479.0	1,229.0	18,249.0	8,049.0
Preferred stock	0.0	0.0	0.0	1,500.0	0.0
Common equity	4,751.8	1,236.0	1,481.8	12,246.0	1,544.0
Total capitalization	9,823.6	15,715.0	2,710.8	31,995.0	9,593.0
Ratios					
Adjusted pretax interest coverage (x)	2.9	1.6	6.7	2.3	3.0
Adjusted FFO interest coverage (x)	4.3	2.9	7.1	3.6	2.6
Adjusted FFO/average total debt (%)	19.8	13.3	42.9	18.5	7.0
Net cash flow/capex (%)	136.3	100.8	140.7	132.7	54.0
Adjusted total debt/total capitalization	60.6	93.1	52.4	61.7	84.0
Return on average equity (%)	11.4	25.9	28.0	11.2	(77.3)

Common dividend payout (%)	73.3	1.5	63.9	66.0	(15.5)
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Table 5 PacifiCorp Market Segments					
	2003	2002	2001	2000	1999
Sales					
Total retail (GWh)	48,339	47,030	47,708	48,300	46,605
Residential (%)	29.2	28.9	27.9	27.7	28.0
Commercial (%)	29.6	29.9	28.8	27.9	27.2
Industrial (%)	39.8	39.8	41.8	43.0	43.4
Other (%)	1.3	1.4	1.5	1.5	1.4
Wholesale (GWh)	24,677	30,533	22,851	29,953	36,315
Total sales (GWh)	73,015	77,563	70,559	78,254	82,921
Revenue					
Total retail (\$ in millions)	2,409	2,315	2,363	2,281	2,173
Residential (%)	36.7	36.5	36.5	36.6	36.8
Commercial (%)	32.5	33.0	31.6	30.7	30.5
Industrial (%)	29.5	29.1	30.5	31.3	31.3
Other (%)	0.7	0.7	0.8	0.8	0.8
Wholesale (\$ in millions)	1,011	972	2,053	1,736	1,052
Total revenue (\$ in millions)	3,420	3,287	4,416	4,017	3,224
Annual sales growth(%)					
Residential	4.0	2.1	(0.6)	2.6	0.5
Commercial	1.9	2.2	2.1	6.3	3.1
Industrial	2.8	(6.1)	(3.8)	2.5	(3.4)
Total retail	2.8	(1.4)	(1.2)	3.6	(0.6)
Standard & Poor's retail average	18.3	35.3	23.0	19.0	19.2
Wholesale	(19.2)	33.6	(23.7)	(17.5)	(20.6)
Total sales growth	(5.9)	9.9	(9.8)	(5.6)	(10.5)
Retail customer growth	1.7	1.4	1.6	1.5	0.1

Table 6 Cost and Rates 2003 Peer Analysis									
Company Name	\$/Megawatt-hour (MWh)								
	Fuel	Total Variable Production	Total Production NF	Purchase Power	Total Production	Total Power Supply	Residential Rate	Commercial Rate	Industrial Rate
Arizona Public Service Co.	21.39	23.00	10.66	39.44	32.05	36.18	86.44	74.35	57.15
Avista Corp.	6.34	7.17	5.06	31.27	11.40	30.81	62.10	68.97	43.85
Black Hills Power Inc.	10.68	11.91	6.14	32.94	16.82	22.43	81.62	74.29	48.45
El Paso Electric Co.	21.63	23.45	9.34	44.45	30.97	33.05	107.41	98.35	56.48
Idaho Power Co.	7.94	8.83	4.52	47.30	12.46	23.74	62.33	49.61	40.12

Nevada Power Co.	32.04	33.33	6.45	63.58	38.49	58.45	88.13	91.07	80.34
PSC of Colorado	14.90	15.79	4.43	52.33	19.34	35.72	83.22	64.77	51.58
PacificCorp	9.48	10.56	5.81	38.17	15.30	22.98	62.62	54.63	36.85
Pacific Gas and Electric Co.	4.31	6.45	10.74	33.09	15.05	31.84	126.38	135.04	85.08
Portland General Electric	14.60	15.84	6.56	39.49	21.16	35.27	78.23	68.61	54.99
Public Service Co. of New Mexico	15.53	16.92	13.76	41.23	29.29	35.36	84.84	74.97	50.03
Puget Sound Energy, Inc.	9.33	10.44	6.85	31.68	16.18	27.69	61.72	68.08	70.69
San Diego Gas & Electric Co.	4.02	8.47	22.35	59.90	26.37	48.94	163.34	161.06	122.18
Sierra Pacific Power Co.	48.15	49.30	5.76	51.39	53.91	56.72	104.12	95.40	73.86
Southern California Edison Co.	7.47	9.57	10.60	76.67	18.06	50.36	105.08	96.22	66.12
Tucson Electric Power Co	19.88	21.03	16.04	56.80	35.92	38.01	91.09	104.34	64.24
WECC Average	12.76	14.23	8.53	45.66	21.28	35.91	95.64	93.59	61.06
Standard & Poor's Average	15.57	16.96	7.07	46.36	22.65	33.46	83.94	76.55	44.42
N/A = Not applicable or available									

FitchRatings

Rating Action Commentary

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Fitch Affirms PacifiCorp's Senior Unsecured at 'A-'; Lowers S-T To 'F2'

Fitch Ratings—NY—October 5, 2004: Fitch Ratings has affirmed PacifiCorp (PPW) as follows:

- Senior secured 'A';
- Senior unsecured 'A-'.

Fitch has also lowered the following ratings for PPW:

- Preferred to 'BBB+' from 'A-';
- Short-term to 'F2' from 'F1'.

The Rating Outlook is Stable for all of PPW's outstanding debt and preferred securities. Fitch has also affirmed and withdrawn PacifiCorp Group Holdings Company's 'BBB+' senior unsecured and 'F2' short-term unsecured ratings.

The PPW rating affirmation and Stable Rating Outlook consider PPW's status as a low-cost provider of electricity, service territory growth, absence of non-utility operations and credit metrics that are in-line with the rating category. The ratings assume support for PPW's \$3 billion capital spending program during fiscal 2005-2007 from its direct parent, PacifiCorp Holdings, Inc (PHI) and reasonable outcomes in pending and anticipated rate cases and the multi-state process (MSP).

The primary risk for PPW fixed income investors is that management may be unable to work successfully with regulators to improve its earned returns especially in light of the utility's substantial capital

requirements. In this scenario, unfavorable regulatory outcomes would erode PPW's credit ratios and bring downward pressure to bear on its prospective credit ratings. However, PPW's recent Utah general rate case (GRC) settlement and progress in the MSP suggests an improving regulatory environment. Key indicators of continuing company progress, or lack thereof, should be evident in upcoming regulatory decisions in the utility's Utah general rate case filing and the MSP, both of which will be closely monitored by Fitch Ratings.

Exposure to wholesale energy price volatility in the event of an unplanned generating plant outage of significant duration and unanticipated capital cost overruns versus budget are additional areas of concern for PPW fixed income investors.

On Aug. 4, 2004, PPW filed a \$111 million (9.6%) rate increase request with the Utah Public Service Commission, based on an 11.125% return on common equity. A final order in the rate case is expected by April 2005. The GRC filing incorporates the inter-jurisdictional cost allocation methodology that emerged from a collaborative effort dubbed the multi-state process that has been underway since April 2002. PPW has reached settlement agreements regarding inter-jurisdictional cost allocation issues in Utah, Oregon and Wyoming. Efforts to obtain commission ratification of the revised protocol continue in Washington, Idaho and California. Fitch anticipates a ruling in Utah MSP proceedings imminently and orders from Oregon and Wyoming regulators are expected later this month.

PPW is an indirect, wholly-owned subsidiary of Scottish Power plc, whose senior unsecured debt is rated 'BBB+' with a Stable Rating Outlook by Fitch (for more information, see related press release on Scottish Power plc from today, which is available on the Fitch Ratings web site at 'www.fitchratings.com').

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Credit Opinion: PacifiCorp

PacificCorp

Portland, Oregon, United States

Ratings

Category	Moody's Rating
Outlook	Negative
Issuer Rating	Baa1
First Mortgage Bonds	A3
Senior Secured	A3
Senior Unsecured MTN	Baa1
Subordinate Shelf	(P)Baa2
Preferred Stock	Baa3
Commercial Paper	P-2
Parent: Scottish Power plc	
Outlook	Negative
Issuer Rating	Baa1
Sr Unsec Bank Credit Facility	Baa1
Senior Unsecured MTN	Baa1
Utah Power & Light Co	
Outlook	Negative
Preferred Stock	Baa3
PacificCorp Group Holdings Company	
Outlook	Negative
Bkd Commercial Paper	P-2

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Daniel Gates/New York	

Key Indicators

PacifiCorp	2004	2003	2002
Funds from Operations / Adjusted Debt [1]	20.3%	17.6%	7.0%
Retained Cash Flow / Adjusted Debt [1]	16.3%	17.4%	0.1%
Common Dividends / Net Income Available for Common	67%	5%	99%
Adjusted Funds from Operations + Adjusted Interest	3.88	3.46	2.25
/ Adjusted Interest [2]			
Adjusted Debt / Adjusted Capitalization [1][3]	55.4%	56.2%	60.4%
Net Income Available for Common / Common Equity	7.5%	4.2%	10.9%

[1] Debt is adjusted for operating leases, guaranteed preferred beneficial interests in company's junior sub, and debentures & preferred stock subject to mandatory redemption. [2] Adjusted Interest reflects adjustments for operating leases and preferred stock dividends. [3] Adjusted Capitalization reflects the adjusted debt.

Note: For definitions of Moody's most common ratio terms please see the accompanying User's Guide.

itiCorp

Opinion

Credit Strengths

PacifiCorp's credit strengths are:

- Low-cost generating assets
- Extensive transmission network through the western US
- Management has improved its relationship with state regulators
- A number of key recent regulatory decisions have been constructive
- Non-regulated affiliated businesses are relatively modest in size and narrowly focused
- Cost structure continues to be lowered

Credit Challenges

PacifiCorp's credit challenges are:

- A degree of regulatory uncertainty still remains in light of numerous rate applications pending
- Six state utility network creates regulatory challenges for management
- Numerous hydro facilities owned by PacifiCorp are involved in relicensing proceedings
- Company's historical financial performance, while improving, has been weak for the rating category
- Future capital expenditures are expected to increase
- Year-to-year financial performance can be influenced by hydro levels in the Pacific Northwest

Rating Rationale

The A3 senior secured rating of PacifiCorp reflects a portfolio of low-cost generating assets, an extensive transmission network, and an affiliation with parent Scottish Power, who has implemented significant cost reductions and operational efficiencies. The rating also considers the company's ongoing efforts to raise rates in order to improve regulated returns. To date, PacifiCorp's efforts has been reasonably successful, including in Oregon and Utah, where annual revenues from operations in these states represent 70% of total consolidated revenues.

Rating Outlook

PacifiCorp's rating outlook is negative. While the company has been successful in garnering regulatory support throughout its six state service territory, financial results, while improving, remain somewhat weak for the current rating. Continued regulatory support should help to strengthen PacifiCorp's credit fundamentals.

What Could Change the Rating - UP

In light of the negative rating outlook, limited prospects exist for the rating to move upward. Also, future capital expenditures for the utility are anticipated to increase relative to historical levels due to planned construction of certain generating assets. The rating could stabilize as the effects of cost saving initiatives and increased rate relief begin to consistently appear in PacifiCorp's financial results, and the planned capital expenditure program is conservatively financed.

What Could Change the Rating - DOWN

Failure to achieve planned cost savings initiatives, an inability to garner consistent regulatory support across the company's service territory, or an increase in financial leverage caused by the company's planned expenditure program could place further downward pressure on the company's ratings.

Corp

Recent Developments

05/04, PacifiCorp announced plans to develop and construct a 534 MW gas-fired plant. The company intends to enter into an asset purchase and sale agreement with Summit Vineyard to develop the plant and with Siemens Westinghouse to construct the plant. Title will transfer to PacifiCorp at completion. Total plant cost is expected to be \$330 million.

03/04, the Utah Public Service Commission (UPSC) granted PacifiCorp a Certificate of Convenience and Necessity to begin construction of Currant Creek, a new 525 MW gas-fired plant. The cost of the plant is expected to be \$350 million and is designed to be on-line in two phases: 280 MW in 2005 and 245 MW in 2006.

01/04, the UPSC granted PacifiCorp \$65 million of additional annual revenues based upon an ROE of 10.7% following an all-parties settlement to the general rate case. The new rates became effective 04/01/04. Also, the UPSC approved a tariff rider in customer bills effective 04/04 enabling the utility to collect \$28 million annually to cover demand side management costs.

03/04, the Wyoming PSC issued an order settling PacifiCorp's general rate case which was filed in May 2003. Under this order, base rates in Wyoming increased annually by \$22.9 million, based upon an 10.75% authorized rate of return.

12/03, PacifiCorp filed with the Washington Utilities and Transportation for a general rate increase of \$26.7 million annually. Hearings are expected to begin in August 2004, with a final order in 11/04.

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PacifiCorp - Oregon

Capital Structure

<u>Line</u>	<u>Description</u>	<u>12/31/2004¹</u>		<u>12/31/2003²</u>		<u>12/31/2002²</u>	
		<u>Amount</u> (1)	<u>Weight</u> (2)	<u>Amount</u> (3)	<u>Weight</u> (4)	<u>Amount</u> (5)	<u>Weight</u> (6)
1	Common Equity	\$ 3,297,400,000	40.32%	\$ 3,187,393,252	37.30%	\$ 3,165,437,997	37.06%
2	Preferred Stock	\$ 41,300,000	0.50%	\$ 41,463,300	0.49%	\$ 108,963,300	1.28%
3	Long-term Debt	\$ 3,713,200,000	45.40%	\$ 3,820,085,702	44.70%	\$ 3,891,149,670	45.56%
4	Short-term Debt	\$ 1,126,700,000	13.78%	\$ 1,496,295,152	17.51%	\$ 1,375,732,592	16.11%
5	Total Capital	\$ 8,178,600,000	100.00%	\$ 8,545,237,406	100.00%	\$ 8,541,283,559	100.00%

Source:

¹ PacifiCorp 10-Q.

² Federal Energy Regulatory Commission.

PacifiCorp - Oregon

Rate of Return at 9.5% ROE

<u>Line</u>	<u>Discription</u>	<u>Weight</u> ¹ (1)	<u>Cost</u> (2)	<u>Weighted Cost</u> (3)	<u>Pre-Tax Weighted Cost</u> (4)
1	Long-Term Debt	52.6%	6.351%	3.34%	3.34%
2	Preferred Stock	1.2%	6.635%	0.08%	0.13%
3	Common Equity	46.2%	9.500%	4.39%	7.07%
4	Total	100.0%		7.81%	10.54%
5	Composite Tax Rate				37.951%

Source:

¹ OR GRC UE 170; ICNU Data Response 20.1 attachment.

PacifiCorp - Oregon

S&P Credit Rating Financial Ratios at ROE of 9.5%

Line	Discription	Ratio at 9.5% Equity Return (1)	S&P "A" Rating (BP: 5) Benchmark (2)	S&P "BBB" Rating (BP: 5) Benchmark* (3)	Reference (4)
1	Rate Base	\$ 2,178,448			PPL Exhibit 801 Tab 2.2
2	Weighted Common Return	4.39%			Page 1; Line 3, Col. 3
3	Income to Common	\$ 95,612			Line1 x Line2
4	Depreciation	\$ 117,476			PPL Exhibit 801 Tab 2.2
5	Amortization	\$ 17,815			PPL Exhibit 801 Tab 2.2
6	Deferred Income Tax	\$ 5,030			PPL Exhibit 801 Tab 2.2
7	Funds from Operations (FFO)	\$ 235,933			Line 3 though 6
8	Weighted Interest Rate	3.34%			Page 1; Line 1, Col. 3
9	Interest Expense	\$ 72,774			Line 1 x Line 8
10	FFO Plus Interest	\$ 308,707			Line 7 + Line 9
11	FFO Interest Coverage	4.2x	4.5x - 3.8x	3.8x - 2.8x	Line 10 / Line 9
12	Total Debt Ratio	52.6%	42% - 50%	50% - 60%	PPL Exhibit 801 Tab 2.2
13	FFO to Total Debt	20.6%	30% - 22%	22% - 15%	Line 7 / (Line 1 x Line 12)

Source:

* Standard and Poors. New Business Profile Scores Assigned to U.S. Utility and Power Companies; Financial Guidelines Revised; June 2, 2004.

Pacific - Oregon

Comparable Group - Electric East

Line	Company Name	Percentage of Electric Revenue (1)	Safety Rank ¹ (2)	Financial Strength ¹ (3)	Bond Rating		Value Line Common Equity Ratio ¹ (6)	C.A. Turner Common Equity Ratio ² (7)
					S&P ² (4)	Moody's ² (5)		
1	Cen. Vermont Pub. Serv.	100%	3	B++	BBB+	Ba2 ³	61.0%	61.0%
2	CH Energy Group	54%	1	A	A	A2	57.5%	58.0%
3	Consol. Edison	58%	1	A++	A	A1	50.5%	49.0%
4	Constellation Energy	16%	2	A	A	A1	52.5%	46.0%
5	Dominion Resources	39%	2	B++	A-	A2	45.5%	39.0%
6	Duke Energy	22%	3	B++	BBB	Baa2	52.5%	41.0%
7	Duquesne Light Hldgs	86%	4	B	BBB+	Baa1	36.5%	33.0%
8	Energy East Corp.	58%	2	B++	BBB+	Baa1	43.0%	40.0%
9	FirstEnergy Corp.	69%	3	B+	BBB	Baa1	49.5%	43.0%
10	FPL Group	83%	1	A+	A	Aa3	52.0%	44.0%
11	Green Mountain Pwr.	100%	3	B++	BBB	Baa1	53.0%	52.0%
12	Northeast Utilities	60%	3	B+	BBB+	A3	33.5%	33.0%
13	NSTAR	80%	1	A	A	A1	42.5%	37.0%
14	PPL Corp.	67%	3	B+	A-	Baa1	39.0%	35.0%
15	Progress Energy	73%	2	B++	BBB	A2	46.0%	43.0%
16	Public Serv. Enterprise	63%	3	B+	A-	A3	34.5%	NM
17	SCANA Corp.	43%	2	A	A-	A1	46.0%	40.0%
18	Southern Co.	87%	2	A	A+	A1	45.0%	42.0%
19	TECO Energy	61%	3	B	BBB-	Baa2	30.0%	30.0%
20	Average	64%	2	B++	A-	A3	45.8%	42.6%
21	PacifiCorp ³				A-	Baa1	46.8%	40.3%

Sources:

¹ Value Line Investment Survey, March 4, 2005.

² C. A. Turner Utility Report; March, 2005.

³ Moody's: <http://moody's.com>.

Note:

The comparable group consists of all the utilities followed by Value Line Investment Survey, excluding:

1. Companies that did not paid any dividends for the last 5 year: Allegheny Energy, Exelon Corp., Pepco Holdings.
2. Companies which did not maintain sustainable growth rate: UIL Holdings.

Pacific - Oregon

Comparable Group - Electric Central

<u>Line</u>	<u>Company Name</u>	<u>Percentage of Electric Revenue</u> (1)	<u>Safety Rank¹</u> (2)	<u>Financial Strength¹</u> (3)	<u>Bond Rating</u>		<u>Value Line Common Equity Ratio¹</u> (6)	<u>C.A. Turner Common Equity Ratio²</u> (7)
					<u>S&P²</u> (4)	<u>Moody's²</u> (5)		
1	Alliant Energy	70%	3	B+	A-	A2	53.0%	48.0%
2	Amer. Elec. Power	89%	3	B++	BBB	Baa1	43.0%	39.0%
3	Ameren Corp.	83%	1	A+	A-	A2	52.0%	49.0%
4	Cinergy Corp.	77%	2	A	BBB-	Baa3	51.5%	43.0%
5	Cleco Corp.	92%	3	B+	BBB+	A3	50.0%	43.0%
6	DTE Energy	19%	3	B+	BBB+	Baa2	46.0%	39.0%
7	Empire Dist. Elec.	93%	3	B+	A-	Baa1	48.5%	48.0%
8	Entergy Corp.	78%	2	A	A-	Baa2	54.0%	52.0%
9	Great Plains Energy	45%	2	A	BBB	A2	49.0%	46.0%
10	MGE Energy	60%	1	A	AA-	Aa3	63.0%	59.0%
11	NiSource Inc.	17%	3	B+	BBB	Baa2	47.0%	40.0%
12	OGE Energy	32%	3	B++	BBB+	Baa2	48.0%	75.0%
13	Otter Tail Corp.	30%	2	A	A-	A2	62.0%	57.0%
14	TXU, Corp.	22%	3	B	BBB	Baa1	11.0%	NM
15	Vectren Corp.	38%	2	A	A-	A3	51.5%	44.0%
16	Westar Energy	100%	2	B++	BBB	Ba1	46.5%	48.0%
17	Wisconsin Energy	57%	2	B++	A-	A1	51.5%	40.0%
18	WPS Resources	18%	2	B++	AA-	Aa2	53.5%	47.0%
19	Average	57%	2	B++	BBB+	A3	48.9%	48.1%
20	PacifiCorp ³				A-	Baa1	46.8%	40.3%

Sources:

¹ Value Line Investment Survey, April 1, 2005.

² C. A. Turner Utility Report; March, 2005.

³ Moody's: <http://moody's.com>.

Note:

The comparable group consists of all the utilities followed by Value Line Investment Survey, **excluding**:

1. Companies that did not paid any dividends for the last 5 year: ALLETE, Aquila Inc., DPL Inc., CMS Energy Corp., Northwestern Corp.
2. Companies which did not maintain sustainable growth rate.

Pacific - Oregon

Comparable Group - Electric West

<u>Line</u>	<u>Company Name</u>	Percentage of Electric Revenue	Safety Rank ¹	Financial Strength ¹	<u>Bond Rating</u>		Value Line Common Equity Ratio ¹	C.A. Turner Common Equity Ratio ²
		(1)	(2)	(3)	<u>S&P²</u>	<u>Moody's²</u>	(6)	(7)
1	Avista Corp.	44%	3	B	BBB-	Baa3	43.0%	39.0%
2	Black Hills	16%	3	B+	BBB	Baa1	56.0%	47.0%
3	Hawaiian Elec.	81%	2	A	BBB	Baa2	52.5%	29.0%
4	IDACORP Inc.	97%	3	B+	A-	A3	51.0%	48.0%
5	MDU Resources	7%	1	A+	A-	A2	66.5%	64.0%
6	Pinnacle West Capital	70%	1	A	BBB	Baa1	51.0%	47.0%
7	PNM Resources	69%	2	B++	BBB	Baa2	54.0%	52.0%
8	Puget Energy Inc.	55%	3	B+	BBB	Baa2	43.5%	39.0%
9	Sempra Energy	48%	2	A	A+	A1	57.0%	48.0%
10	UniSource Energy	84%	3	C++	BBB-	Ba2	23.0%	23.0%
11	Xcel Energy Inc.	75%	2	B++	A-	A3	47.5%	33.0%
12	Average	59%	2	B++	BBB+	Baa1	49.5%	42.6%
13	PacifiCorp ³				A-	Baa1	46.8%	40.3%

Sources:

¹ Value Line Investment Survey, February 11, 2005.

² C. A. Turner Utility Report; March, 2005.

³ Moody's: <http://moody's.com>.

Note:

The comparable group consists of all the utilities followed by Value Line Investment Survey, **excluding**:

1. Companies that did not paid any dividends for the last 5 year: Edison, Int'l; El Paso Electric, PG&E Corp., Sierra Pacific Res.
2. Companies which did not maintain sustainable growth rate.

PacifiCorp - Oregon

Growth Rate Estimates - Electric East

<u>Line</u>	<u>Utility</u>	<u>Zacks Estimated Growth¹ (1)</u>	<u>Number of Estimates (2)</u>	<u>Reuters Estimated Growth² (3)</u>	<u>Number of Estimates (4)</u>	<u>Thomson Estimated Growth³ (5)</u>	<u>Number of Estimates (6)</u>	<u>AVG of Growth Rates (7)</u>
1	Cen. Vermont Pub. Serv.	N/A	N/A	N/A	N/A	N/A	N/A	N/A
2	CH Energy Group	N/A	N/A	N/A	N/A	N/A	N/A	N/A
3	Consol. Edison	3.00%	8	3.17%	6	3.35%	8	3.17%
4	Constellation Energy	9.00%	9	7.60%	5	7.76%	7	8.12%
5	Dominion Resources	6.00%	13	6.33%	12	5.49%	8	5.94%
6	Duke Energy	5.25%	12	5.08%	12	4.26%	11	4.86%
7	Duquesne Light Hldgs	5.00%	1	4.00%	2	3.33%	3	4.11%
8	Energy East Corp.	5.00%	4	3.67%	6	4.00%	5	4.22%
9	FirstEnergy Corp.	4.14%	7	4.44%	9	3.83%	6	4.14%
10	FPL Group	5.38%	13	4.80%	10	4.78%	12	4.99%
11	Green Mountain Pwr.	N/A	N/A	N/A	N/A	N/A	N/A	N/A
12	Northeast Utilities	4.50%	4	4.20%	5	4.50%	4	4.40%
13	NSTAR	4.75%	4	4.40%	5	4.33%	3	4.49%
14	PPL Corp.	5.56%	9	5.40%	10	5.56%	9	5.51%
15	Progress Energy	3.68%	11	4.50%	9	3.98%	9	4.05%
16	Public Serv. Enterprise	4.29%	7	4.00%	7	4.50%	6	4.26%
17	SCANA Corp.	4.50%	8	4.50%	6	4.50%	6	4.50%
18	Southern Co.	4.50%	12	4.58%	12	4.69%	12	4.59%
19	TECO Energy	4.14%	7	5.20%	5	3.60%	5	4.31%
20	Average	4.92%	8	4.74%	8	4.53%	7	4.73%

Sources:

¹ www.zacksadvisor.com, Detailed Research, April 15, 2005.

² www.investor.reuters.com, Earnings Estimates, April 15, 2005.

³ http://ec.thomsonfn.com, Earnings Estimates, April 15, 2005.

PacifiCorp - Oregon

Growth Rate Estimates - Electric Central

<u>Line</u>	<u>Utility</u>	<u>Zacks Estimated Growth¹ (1)</u>	<u>Number of Estimates (2)</u>	<u>Reuters Estimated Growth² (3)</u>	<u>Number of Estimates (4)</u>	<u>Thomson Estimated Growth³ (5)</u>	<u>Number of Estimates (6)</u>	<u>AVG of Growth Rates (7)</u>
1	Alliant Energy	4.00%	3	4.00%	4	3.25%	4	3.75%
2	Amer. Elec. Power	3.40%	9	3.43%	7	3.61%	10	3.48%
3	Ameren Corp.	3.92%	6	3.83%	6	3.07%	7	3.61%
4	Cinergy Corp.	4.60%	10	4.56%	9	4.44%	9	4.53%
5	Cleco Corp.	4.00%	1	4.00%	1	4.00%	1	4.00%
6	DTE Energy	4.00%	6	4.50%	6	4.50%	6	4.33%
7	Empire Dist. Elec.	5.00%	1	3.00%	1	2.00%	2	3.33%
8	Entergy Corp.	6.90%	9	5.94%	8	6.71%	10	6.52%
9	Great Plains Energy	3.20%	5	3.17%	6	3.00%	4	3.12%
10	MGE Energy	N/A	N/A	N/A	N/A	N/A	N/A	N/A
11	NiSource Inc.	4.43%	7	3.50%	6	3.57%	7	3.83%
12	OGE Energy	3.50%	2	4.00%	1	3.33%	3	3.61%
13	Otter Tail Corp.	4.50%	2	4.67%	3	4.50%	2	4.56%
14	TXU, Corp.	12.05%	10	6.40%	5	14.63%	8	11.03%
15	Vectren Corp.	5.86%	7	6.75%	4	5.82%	5	6.14%
16	Westar Energy Inc.	4.00%	2	3.90%	4	2.30%	2	3.40%
17	Wisconsin Energy	6.14%	7	6.25%	8	6.20%	5	6.20%
18	WPS Resources	4.50%	2	4.25%	4	4.33%	3	4.36%
19	Average	4.94%	6	4.48%	5	4.66%	5	4.69%

Sources:

¹ www.zacksadvisor.com, Detailed Research, April 15, 2005.

² www.investor.reuters.com, Earnings Estimates, April 15, 2005.

³ <http://ec.thomsonfn.com>, Earnings Estimates, April 15, 2005.

PacifiCorp - Oregon

Growth Rate Estimates - Electric West

<u>Line</u>	<u>Utility</u>	<u>Zacks</u> <u>Estimated</u> <u>Growth¹</u> (1)	<u>Number of</u> <u>Estimates</u> (2)	<u>Reuters</u> <u>Estimated</u> <u>Growth²</u> (3)	<u>Number of</u> <u>Estimates</u> (4)	<u>Thomson</u> <u>Estimated</u> <u>Growth³</u> (5)	<u>Number of</u> <u>Estimates</u> (6)	<u>AVG of</u> <u>Growth</u> <u>Rates</u> (7)
1	Avista Corp.	4.50%	2	4.67%	3	4.50%	2	4.56%
2	Black Hills	6.00%	1	6.00%	1	4.00%	2	5.33%
3	Hawaiian Elec.	3.75%	2	3.38%	4	2.50%	7	3.21%
4	IDACORP Inc.	4.50%	2	4.67%	3	4.50%	2	4.56%
5	MDU Resources	7.57%	7	7.50%	6	7.80%	5	7.62%
6	Pinnacle West Capital	5.20%	5	4.60%	5	4.50%	4	4.77%
7	PNM Resources	5.00%	1	5.00%	1	4.05%	2	4.68%
8	Puget Energy Inc.	5.00%	7	5.57%	7	5.60%	5	5.39%
9	Sempra Energy	4.79%	7	7.67%	3	6.25%	4	6.24%
10	UniSource Energy	N/A	N/A	N/A	N/A	N/A	N/A	N/A
11	Xcel Energy Inc.	3.86%	7	4.29%	7	3.83%	6	3.99%
12	Average	5.02%	7	5.34%	7	4.75%	6	5.04%

Sources:

¹ www.zacksadvisor.com, Detailed Research, April 15, 2005.

² www.investor.reuters.com, Earnings Estimates, April 15, 2005.

³ <http://ec.thomsonfn.com>, Earnings Estimates, April 15, 2005.

PacifiCorp - Oregon

Growth Estimates Summary

<u>Line</u>	<u>Discription</u>	<u>Consensus Analysts Growth Rate¹</u> (1)	<u>Internal Growth Rate (BxR)²</u> (2)	<u>Projected Long-Term GDP³</u> (3)
1	Electric East	4.73%	4.46%	5.30%
2	Electric Central	4.69%	4.92%	5.30%
3	Electric West	5.04%	4.50%	5.30%
4	Average	4.82%	4.63%	5.30%

Source:

¹www.zacksadvisor.com, Detailed Research, www.investor.reuters.com, and
http://ec.thomsonfn.com, Earnings Estimates; April 15th, 2005.

² See Exhibit MPG-1, Schedule 10.

³ Blue Chip Financial Forecast, March 10, 2005 at 15.

PacifiCorp - Oregon

DCF Model - Electric East

<u>Line</u>	<u>Utility</u>	<u>13-Week AVG Stock Price¹</u> (1)	<u>Constant Analysts Growth</u> (2)	<u>Annual Dividend²</u> (3)	<u>Adjusted Yield</u> (4)	<u>Constant Growth DCF</u> (5)
1	Cen. Vermont Pub. Serv.	\$ 22.54	N/A	\$ 0.92	N/A	N/A
2	CH Energy Group	\$ 46.25	N/A	\$ 2.16	N/A	N/A
3	Consol. Edison	\$ 42.88	3.17%	\$ 2.28	5.49%	8.66%
4	Constellation Energy	\$ 51.05	8.12%	\$ 1.34	2.84%	10.96%
5	Dominion Resources	\$ 72.45	5.94%	\$ 2.68	3.92%	9.86%
6	Duke Energy	\$ 27.25	4.86%	\$ 1.10	4.23%	9.10%
7	Duquesne Light Hldgs	\$ 18.35	4.11%	\$ 1.00	5.67%	9.78%
8	Energy East Corp.	\$ 25.96	4.22%	\$ 1.10	4.42%	8.64%
9	FirstEnergy Corp.	\$ 40.83	4.14%	\$ 1.65	4.21%	8.35%
10	FPL Group	\$ 65.03	4.99%	\$ 1.42	2.29%	7.28%
11	Green Mountain Pwr.	\$ 29.23	N/A	\$ 1.00	N/A	N/A
12	Northeast Utilities	\$ 18.83	4.40%	\$ 0.65	3.60%	8.00%
13	NSTAR	\$ 55.53	4.49%	\$ 2.32	4.37%	8.86%
14	PPL Corp.	\$ 53.83	5.51%	\$ 1.84	3.61%	9.11%
15	Progress Energy	\$ 42.91	4.05%	\$ 2.36	5.72%	9.78%
16	Public Serv. Enterprise	\$ 53.56	4.26%	\$ 2.24	4.36%	8.62%
17	SCANA Corp.	\$ 38.42	4.50%	\$ 1.56	4.24%	8.74%
18	Southern Co.	\$ 32.51	4.59%	\$ 1.43	4.61%	9.20%
19	TECO Energy	\$ 15.82	4.31%	\$ 0.76	5.01%	9.33%
20	Average	\$ 39.64	4.73%	\$ 1.57	4.29%	9.02%

Sources:

¹ <http://finance.yahoo.com>, Historical Prices, April 15, 2005.

² The Value Line Investment Survey, March 4, 2005.

PacifiCorp - Oregon

DCF Model - Electric Central

<u>Line</u>	<u>Utility</u>	<u>13-Week AVG Stock Price¹</u> (1)	<u>Constant Analysts Growth</u> (2)	<u>Annual Dividend²</u> (3)	<u>Adjusted Yield</u> (4)	<u>Constant Growth DCF</u> (5)
1	Alliant Energy	\$ 27.14	3.75%	\$ 1.06	4.05%	7.80%
2	Amer. Elec. Power	\$ 34.15	3.48%	\$ 1.40	4.24%	7.72%
3	Ameren Corp.	\$ 50.13	3.61%	\$ 2.54	5.25%	8.86%
4	Cinergy Corp.	\$ 40.33	4.53%	\$ 1.92	4.98%	9.51%
5	Cleco Corp.	\$ 20.61	4.00%	\$ 0.90	4.54%	8.54%
6	DTE Energy	\$ 44.75	4.33%	\$ 2.06	4.80%	9.14%
7	Empire Dist. Elec.	\$ 22.95	3.33%	\$ 1.28	5.76%	9.10%
8	Entergy Corp.	\$ 69.97	6.52%	\$ 2.16	3.29%	9.80%
9	Great Plains Energy	\$ 30.58	3.12%	\$ 1.66	5.60%	8.72%
10	MGE Energy	\$ 34.71	N/A	\$ 1.37	N/A	N/A
11	NiSource Inc.	\$ 22.74	3.83%	\$ 0.92	4.20%	8.03%
12	OGE Energy	\$ 26.56	3.61%	\$ 1.33	5.20%	8.81%
13	Otter Tail Corp.	\$ 25.12	4.56%	\$ 1.12	4.66%	9.22%
14	TXU, Corp.	\$ 76.34	11.03%	\$ 2.25	3.28%	14.30%
15	Vectren Corp.	\$ 27.04	6.14%	\$ 1.18	4.63%	10.78%
16	Westar Energy	\$ 22.61	3.40%	\$ 0.92	4.21%	7.61%
17	Wisconsin Energy	\$ 34.92	6.20%	\$ 0.88	2.68%	8.87%
18	WPS Resources	\$ 52.08	4.36%	\$ 2.22	4.45%	8.81%
19	Average	\$ 36.82	4.69%	\$ 1.51	4.46%	9.15%

Sources:

¹ <http://finance.yahoo.com>, Historical Prices, April 15, 2005.

² The Value Line Investment Survey, April 1, 2005.

PacifiCorp - Oregon

DCF Model - Electric West

<u>Line</u>	<u>Utility</u>	<u>13-Week AVG Stock Price¹</u> (1)	<u>Constant Analysts Growth</u> (2)	<u>Annual Dividend²</u> (3)	<u>Adjusted Yield</u> (4)	<u>Constant Growth DCF</u> (5)
1	Avista Corp.	\$ 17.57	4.56%	\$ 0.52	3.09%	7.65%
2	Black Hills	\$ 31.79	5.33%	\$ 1.28	4.24%	9.57%
3	Hawaiian Elec.	\$ 27.12	3.21%	\$ 1.24	4.72%	7.93%
4	IDACORP Inc.	\$ 28.95	4.56%	\$ 1.20	4.33%	8.89%
5	MDU Resources	\$ 27.24	7.62%	\$ 0.72	2.84%	10.47%
6	Pinnacle West Capital	\$ 42.38	4.77%	\$ 1.90	4.70%	9.46%
7	PNM Resources	\$ 26.27	4.68%	\$ 0.74	2.95%	7.63%
8	Puget Energy Inc.	\$ 22.85	5.39%	\$ 1.00	4.61%	10.00%
9	Sempra Energy	\$ 39.38	6.24%	\$ 1.00	2.70%	8.93%
10	UniSource Energy	\$ 30.40	N/A	\$ 0.64	N/A	N/A
11	Xcel Energy Inc.	\$ 17.66	3.99%	\$ 0.83	4.90%	8.89%
12	Average	\$ 28.33	5.04%	\$ 1.01	3.91%	8.94%

Sources:

¹ <http://finance.yahoo.com>, Historical Prices, April 15, 2005.

² The Value Line Investment Survey, February 11, 2005.

PacifiCorp - Oregon

DCF Model - Electric East

<u>Line</u>	<u>Utility</u>	<u>13-Week AVG Stock Price¹</u> (1)	<u>Internal Growth</u> (2)	<u>Annual Dividend²</u> (3)	<u>Adjusted Yield</u> (4)	<u>Constant Growth DCF</u> (5)
1	Cen. Vermont Pub. Serv.	\$ 22.54	4.37%	\$ 0.92	4.26%	8.63%
2	CH Energy Group	\$ 46.25	2.40%	\$ 2.16	4.78%	7.18%
3	Consol. Edison	\$ 42.88	1.80%	\$ 2.28	5.41%	7.21%
4	Constellation Energy	\$ 51.05	8.79%	\$ 1.34	2.86%	11.65%
5	Dominion Resources	\$ 72.45	6.25%	\$ 2.68	3.93%	10.18%
6	Duke Energy	\$ 27.25	4.43%	\$ 1.10	4.22%	8.65%
7	Duquesne Light Hldgs	\$ 18.35	3.96%	\$ 1.00	5.66%	9.62%
8	Energy East Corp.	\$ 25.96	2.75%	\$ 1.10	4.35%	7.10%
9	FirstEnergy Corp.	\$ 40.83	5.75%	\$ 1.65	4.28%	10.03%
10	FPL Group	\$ 65.03	3.92%	\$ 1.42	2.27%	6.18%
11	Green Mountain Pwr.	\$ 29.23	4.84%	\$ 1.00	3.59%	8.43%
12	Northeast Utilities	\$ 18.83	4.64%	\$ 0.65	3.61%	8.25%
13	NSTAR	\$ 55.53	4.56%	\$ 2.32	4.37%	8.93%
14	PPL Corp.	\$ 53.83	7.17%	\$ 1.84	3.66%	10.84%
15	Progress Energy	\$ 42.91	1.97%	\$ 2.36	5.61%	7.58%
16	Public Serv. Enterprise	\$ 53.56	4.04%	\$ 2.24	4.35%	8.39%
17	SCANA Corp.	\$ 38.42	4.57%	\$ 1.56	4.25%	8.82%
18	Southern Co.	\$ 32.51	4.32%	\$ 1.43	4.60%	8.92%
19	TECO Energy	\$ 15.82	4.25%	\$ 0.76	5.01%	9.26%
20	Average	\$ 39.64	4.46%	\$ 1.57	4.27%	8.73%

Sources:

¹ <http://finance.yahoo.com>, Historical Prices, April 15, 2005.

² The Value Line Investment Survey, March 4, 2005.

PacifiCorp - Oregon

DCF Model - Electric Central

<u>Line</u>	<u>Utility</u>	<u>13-Week AVG Stock Price¹</u> (1)	<u>Internal Growth</u> (2)	<u>Annual Dividend²</u> (3)	<u>Adjusted Yield</u> (4)	<u>Constant Growth DCF</u> (5)
1	Alliant Energy	\$ 27.14	2.97%	\$ 1.06	4.02%	6.99%
2	Amer. Elec. Power	\$ 34.15	5.13%	\$ 1.40	4.31%	9.44%
3	Ameren Corp.	\$ 50.13	1.74%	\$ 2.54	5.15%	6.90%
4	Cinergy Corp.	\$ 40.33	3.74%	\$ 1.92	4.94%	8.68%
5	Cleco Corp.	\$ 20.61	4.60%	\$ 0.90	4.57%	9.17%
6	DTE Energy	\$ 44.75	6.69%	\$ 2.06	4.91%	11.61%
7	Empire Dist. Elec.	\$ 22.95	2.82%	\$ 1.28	5.74%	8.56%
8	Entergy Corp.	\$ 69.97	4.87%	\$ 2.16	3.24%	8.11%
9	Great Plains Energy	\$ 30.58	3.15%	\$ 1.66	5.60%	8.75%
10	MGE Energy	\$ 34.71	4.95%	\$ 1.37	4.14%	9.08%
11	NiSource Inc.	\$ 22.74	4.28%	\$ 0.92	4.22%	8.49%
12	OGE Energy	\$ 26.56	3.75%	\$ 1.33	5.20%	8.95%
13	Otter Tail Corp.	\$ 25.12	3.69%	\$ 1.12	4.62%	8.31%
14	TXU, Corp.	\$ 76.34	18.26%	\$ 2.25	3.49%	21.75%
15	Vectren Corp.	\$ 27.04	3.54%	\$ 1.18	4.52%	8.06%
16	Westar Energy	\$ 22.61	3.34%	\$ 0.92	4.21%	7.55%
17	Wisconsin Energy	\$ 34.92	5.91%	\$ 0.88	2.67%	8.58%
18	WPS Resources	\$ 52.08	5.08%	\$ 2.22	4.48%	9.56%
19	Average	\$ 36.82	4.92%	\$ 1.51	4.45%	9.36%

Sources:

¹ <http://finance.yahoo.com>, Historical Prices, April 15, 2005.

² The Value Line Investment Survey, April 1, 2005.

PacifiCorp - Oregon

DCF Model - Electric West

<u>Line</u>	<u>Utility</u>	<u>13-Week AVG Stock Price¹</u> (1)	<u>Internal Growth</u> (2)	<u>Annual Dividend²</u> (3)	<u>Adjusted Yield</u> (4)	<u>Constant Growth DCF</u> (5)
1	Avista Corp.	\$ 17.57	4.27%	\$ 0.52	3.09%	7.35%
2	Black Hills	\$ 31.79	3.59%	\$ 1.28	4.17%	7.76%
3	Hawaiian Elec.	\$ 27.12	4.03%	\$ 1.24	4.76%	8.78%
4	IDACORP Inc.	\$ 28.95	3.43%	\$ 1.20	4.29%	7.72%
5	MDU Resources	\$ 27.24	6.80%	\$ 0.72	2.82%	9.62%
6	Pinnacle West Capital	\$ 42.38	2.86%	\$ 1.90	4.61%	7.47%
7	PNM Resources	\$ 26.27	3.24%	\$ 0.74	2.91%	6.15%
8	Puget Energy Inc.	\$ 22.85	4.18%	\$ 1.00	4.56%	8.74%
9	Sempra Energy	\$ 39.38	9.17%	\$ 1.00	2.77%	11.94%
10	UniSource Energy	\$ 30.40	5.00%	\$ 0.64	2.21%	7.21%
11	Xcel Energy Inc.	\$ 17.66	3.00%	\$ 0.83	4.85%	7.85%
12	Average	\$ 28.33	4.50%	\$ 1.01	3.73%	8.23%

Sources:

¹ <http://finance.yahoo.com>, Historical Prices, April 15, 2005.

² The Value Line Investment Survey, February 11, 2005.

PacifiCorp - Oregon

DCF Model - Electric East

<u>Line</u>	<u>Utility</u>	<u>13-Week AVG Stock Price¹</u> (1)	<u>GDP Growth³</u> (2)	<u>Annual Dividend²</u> (3)	<u>Adjusted Yield</u> (4)	<u>Constant Growth DCF</u> (5)
1	Cen. Vermont Pub. Serv.	\$ 22.54	5.30%	\$ 0.92	4.30%	9.60%
2	CH Energy Group	\$ 46.25	5.30%	\$ 2.16	4.92%	10.22%
3	Consol. Edison	\$ 42.88	5.30%	\$ 2.28	5.60%	10.90%
4	Constellation Energy	\$ 51.05	5.30%	\$ 1.34	2.76%	8.06%
5	Dominion Resources	\$ 72.45	5.30%	\$ 2.68	3.90%	9.20%
6	Duke Energy	\$ 27.25	5.30%	\$ 1.10	4.25%	9.55%
7	Duquesne Light Hldgs	\$ 18.35	5.30%	\$ 1.00	5.74%	11.04%
8	Energy East Corp.	\$ 25.96	5.30%	\$ 1.10	4.46%	9.76%
9	FirstEnergy Corp.	\$ 40.83	5.30%	\$ 1.65	4.26%	9.56%
10	FPL Group	\$ 65.03	5.30%	\$ 1.42	2.30%	7.60%
11	Green Mountain Pwr.	\$ 29.23	5.30%	\$ 1.00	3.60%	8.90%
12	Northeast Utilities	\$ 18.83	5.30%	\$ 0.65	3.64%	8.94%
13	NSTAR	\$ 55.53	5.30%	\$ 2.32	4.40%	9.70%
14	PPL Corp.	\$ 53.83	5.30%	\$ 1.84	3.60%	8.90%
15	Progress Energy	\$ 42.91	5.30%	\$ 2.36	5.79%	11.09%
16	Public Serv. Enterprise	\$ 53.56	5.30%	\$ 2.24	4.40%	9.70%
17	SCANA Corp.	\$ 38.42	5.30%	\$ 1.56	4.28%	9.58%
18	Southern Co.	\$ 32.51	5.30%	\$ 1.43	4.64%	9.94%
19	TECO Energy	\$ 15.82	5.30%	\$ 0.76	5.06%	10.36%
20	Average	\$ 39.64	5.30%	\$ 1.57	4.31%	9.61%

Sources:

¹ <http://finance.yahoo.com>, Historical Prices, April 15, 2005.

² The Value Line Investment Survey, March 4, 2005.

Notes:

³ Blue Chip Financial Forecast, March 10, 2005 at 15.

PacifiCorp - Oregon

DCF Model - Electric Central

<u>Line</u>	<u>Utility</u>	<u>13-Week AVG Stock Price¹</u> (1)	<u>GDP Growth³</u> (2)	<u>Annual Dividend²</u> (3)	<u>Adjusted Yield</u> (4)	<u>Constant Growth DCF</u> (5)
1	Alliant Energy	\$ 27.14	5.30%	\$ 1.06	4.11%	9.41%
2	Amer. Elec. Power	\$ 34.15	5.30%	\$ 1.40	4.32%	9.62%
3	Ameren Corp.	\$ 50.13	5.30%	\$ 2.54	5.34%	10.64%
4	Cinergy Corp.	\$ 40.33	5.30%	\$ 1.92	5.01%	10.31%
5	Cleco Corp.	\$ 20.61	5.30%	\$ 0.90	4.60%	9.90%
6	DTE Energy	\$ 44.75	5.30%	\$ 2.06	4.85%	10.15%
7	Empire Dist. Elec.	\$ 22.95	5.30%	\$ 1.28	5.87%	11.17%
8	Entergy Corp.	\$ 69.97	5.30%	\$ 2.16	3.25%	8.55%
9	Great Plains Energy	\$ 30.58	5.30%	\$ 1.66	5.72%	11.02%
10	MGE Energy	\$ 34.71	5.30%	\$ 1.37	4.15%	9.45%
11	NiSource Inc.	\$ 22.74	5.30%	\$ 0.92	4.26%	9.56%
12	OGE Energy	\$ 26.56	5.30%	\$ 1.33	5.28%	10.58%
13	Otter Tail Corp.	\$ 25.12	5.30%	\$ 1.12	4.70%	10.00%
14	TXU, Corp.	\$ 76.34	5.30%	\$ 2.25	3.11%	8.41%
15	Vectren Corp.	\$ 27.04	5.30%	\$ 1.18	4.60%	9.90%
16	Westar Energy	\$ 22.61	5.30%	\$ 0.92	4.28%	9.58%
17	Wisconsin Energy	\$ 34.92	5.30%	\$ 0.88	2.65%	7.95%
18	WPS Resources	\$ 52.08	5.30%	\$ 2.22	4.49%	9.79%
19	Average	\$ 36.82	5.30%	\$ 1.51	4.48%	9.78%

Sources:

¹ <http://finance.yahoo.com>, Historical Prices, April 15, 2005.

² The Value Line Investment Survey, April 1, 2005.

Notes:

³ Blue Chip Financial Forecast, March 10, 2005 at 15.

PacifiCorp - Oregon

DCF Model - Electric West

<u>Line</u>	<u>Utility</u>	<u>13-Week AVG Stock Price¹</u> (1)	<u>GDP Growth³</u> (2)	<u>Annual Dividend²</u> (3)	<u>Adjusted Yield</u> (4)	<u>Constant Growth DCF</u> (5)
1	Avista Corp.	\$ 17.57	5.30%	\$ 0.52	3.12%	8.42%
2	Black Hills	\$ 31.79	5.30%	\$ 1.28	4.24%	9.54%
3	Hawaiian Elec.	\$ 27.12	5.30%	\$ 1.24	4.81%	10.11%
4	IDACORP Inc.	\$ 28.95	5.30%	\$ 1.20	4.36%	9.66%
5	MDU Resources	\$ 27.24	5.30%	\$ 0.72	2.78%	8.08%
6	Pinnacle West Capital	\$ 42.38	5.30%	\$ 1.90	4.72%	10.02%
7	PNM Resources	\$ 26.27	5.30%	\$ 0.74	2.97%	8.27%
8	Puget Energy Inc.	\$ 22.85	5.30%	\$ 1.00	4.61%	9.91%
9	Sempra Energy	\$ 39.38	5.30%	\$ 1.00	2.67%	7.97%
10	UniSource Energy	\$ 30.40	5.30%	\$ 0.64	2.22%	7.52%
11	Xcel Energy Inc.	\$ 17.66	5.30%	\$ 0.83	4.96%	10.26%
12	Average	\$ 28.33	5.30%	\$ 1.01	3.77%	9.07%

Sources:

¹ <http://finance.yahoo.com>, Historical Prices, April 15, 2005.

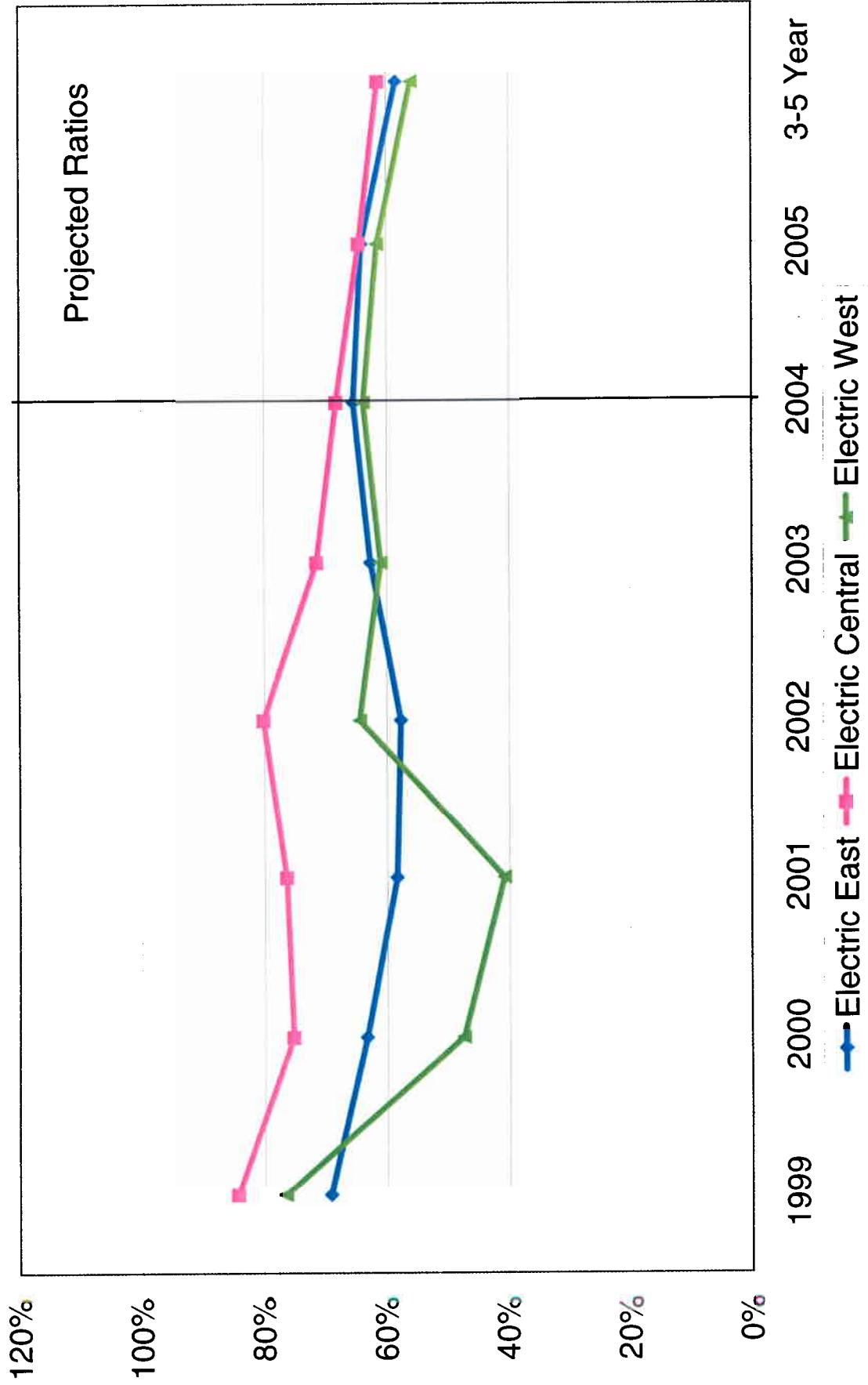
² The Value Line Investment Survey, February 11, 2005.

Notes:

³ Blue Chip Financial Forecast, March 10, 2005 at 15.

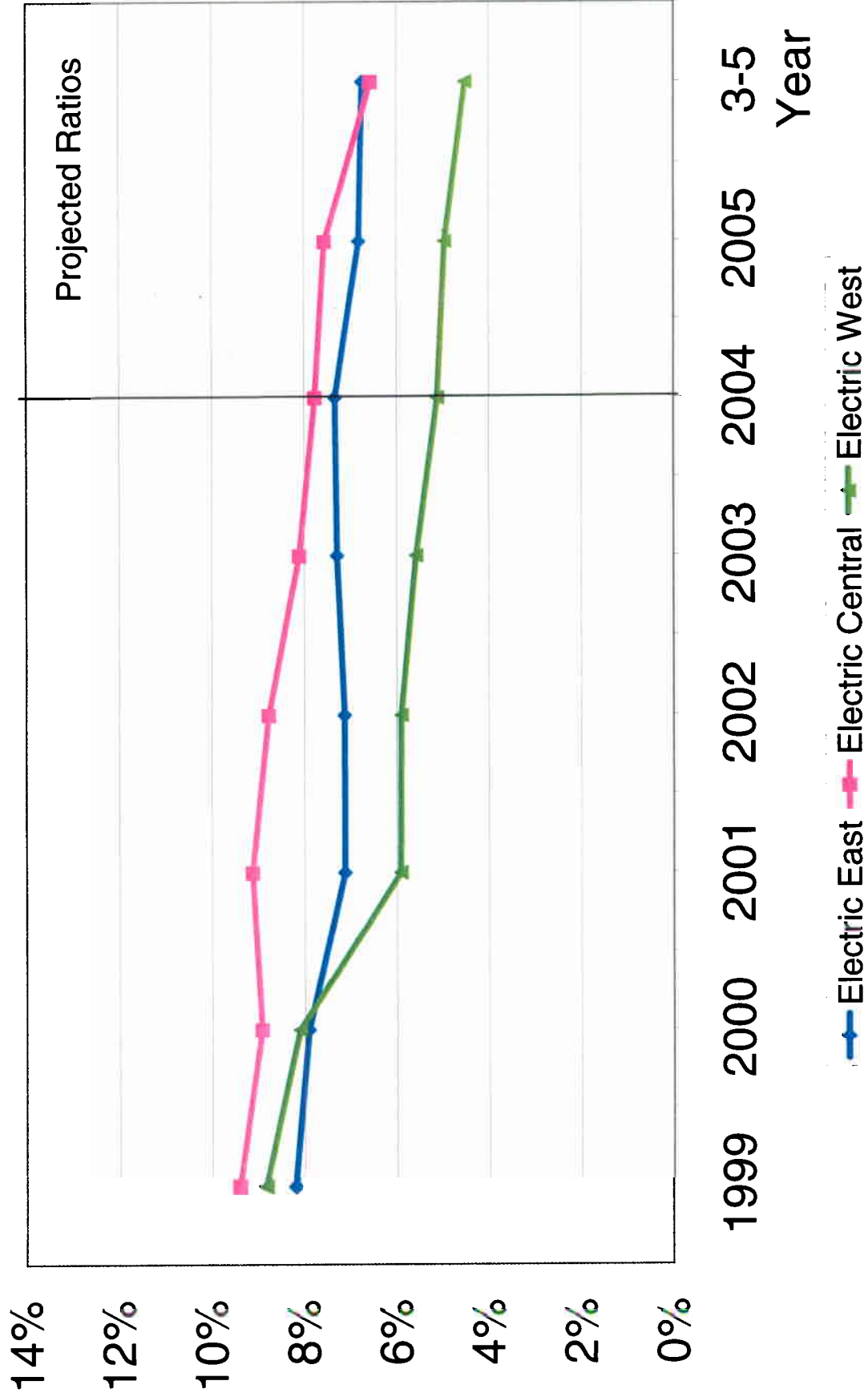
PacifiCorp - Oregon

Dividend Payout Ratio



PacifiCorp - Oregon

Dividend/Book Ratio



PacifiCorp - Oregon

Multi-stage Growth Rate Estimates - Electric East

<u>Line</u>	<u>Utility</u>	<u>3-5 Year</u> <u>DPS</u> <u>(1)</u>	<u>3-5 Year</u> <u>EPS</u> <u>(2)</u>	<u>3-5 Year</u> <u>ROE</u> <u>(3)</u>	<u>Internal</u> <u>Growth Rate</u> <u>(4)</u>
1	Cen. Vermont Pub. Serv.	\$ 1.08	\$ 2.00	9.50%	4.37%
2	CH Energy Group	\$ 2.20	\$ 3.00	9.00%	2.40%
3	Consol. Edison	\$ 2.36	\$ 2.95	9.00%	1.80%
4	Constellation Energy	\$ 2.14	\$ 5.75	14.00%	8.79%
5	Dominion Resources	\$ 3.00	\$ 6.00	12.50%	6.25%
6	Duke Energy	\$ 1.30	\$ 2.25	10.50%	4.43%
7	Duquesne Light Hldgs	\$ 1.04	\$ 1.45	14.00%	3.96%
8	Energy East Corp.	\$ 1.45	\$ 2.00	10.00%	2.75%
9	FirstEnergy Corp.	\$ 2.00	\$ 4.00	11.50%	5.75%
10	FPL Group	\$ 1.90	\$ 2.95	11.00%	3.92%
11	Green Mountain Pwr.	\$ 1.32	\$ 2.45	10.50%	4.84%
12	Northeast Utilities	\$ 0.97	\$ 2.00	9.00%	4.64%
13	NSTAR	\$ 2.70	\$ 4.25	12.50%	4.56%
14	PPL Corp.	\$ 2.40	\$ 4.75	14.50%	7.17%
15	Progress Energy	\$ 2.50	\$ 3.20	9.00%	1.97%
16	Public Serv. Enterprise	\$ 2.40	\$ 3.70	11.50%	4.04%
17	SCANA Corp.	\$ 1.90	\$ 3.25	11.00%	4.57%
18	Southern Co.	\$ 1.70	\$ 2.50	13.50%	4.32%
19	TECO Energy	\$ 1.00	\$ 2.00	8.50%	4.25%
20	Average	\$ 1.86	\$ 3.18	11.11%	4.46%

Source:

Value Line Investment Survey March 4, 2005.

PacifiCorp - Oregon

Multi-stage Growth Rate Estimates - Electric Central

<u>Line</u>	<u>Utility</u>	<u>3-5 Year</u> <u>DPS</u> <u>(1)</u>	<u>3-5 Year</u> <u>EPS</u> <u>(2)</u>	<u>3-5 Year</u> <u>ROE</u> <u>(3)</u>	<u>Internal</u> <u>Growth Rate</u> <u>(4)</u>
1	Alliant Energy	\$ 1.32	\$ 2.10	8.00%	2.97%
2	Amer. Elec. Power	\$ 1.60	\$ 3.00	11.00%	5.13%
3	Ameren Corp.	\$ 2.54	\$ 3.15	9.00%	1.74%
4	Cinergy Corp.	\$ 2.08	\$ 3.15	11.00%	3.74%
5	Cleco Corp.	\$ 0.90	\$ 1.50	11.50%	4.60%
6	DTE Energy	\$ 2.10	\$ 4.75	12.00%	6.69%
7	Empire Dist. Elec.	\$ 1.28	\$ 1.75	10.50%	2.82%
8	Entergy Corp.	\$ 3.01	\$ 5.40	11.00%	4.87%
9	Great Plains Energy	\$ 1.66	\$ 2.25	12.00%	3.15%
10	MGE Energy	\$ 1.44	\$ 2.45	12.00%	4.95%
11	NiSource Inc.	\$ 1.10	\$ 2.00	9.50%	4.28%
12	OGE Energy	\$ 1.40	\$ 2.00	12.50%	3.75%
13	Otter Tail Corp.	\$ 1.20	\$ 1.85	10.50%	3.69%
14	TXU, Corp	\$ 2.59	\$ 6.80	29.50%	18.26%
15	Vectren Corp.	\$ 1.35	\$ 1.95	11.50%	3.54%
16	Westar Energy	\$ 1.10	\$ 1.75	9.00%	3.34%
17	Wisconsin Energy	\$ 1.04	\$ 2.75	9.50%	5.91%
18	WPS Resources	\$ 2.40	\$ 4.30	11.50%	5.08%
19	Average	\$ 1.67	\$ 2.94	11.75%	4.92%

Source:

Value Line Investment Survey April 1, 2005.

PacifiCorp - Oregon

Multi-stage Growth Rate Estimates - Electric West

<u>Line</u>	<u>Utility</u>	<u>3-5 Year</u> <u>DPS</u> <u>(1)</u>	<u>3-5 Year</u> <u>EPS</u> <u>(2)</u>	<u>3-5 Year</u> <u>ROE</u> <u>(3)</u>	<u>Internal</u> <u>Growth Rate</u> <u>(4)</u>
1	Avista Corp.	\$ 0.70	\$ 1.50	8.00%	4.27%
2	Black Hills	\$ 1.40	\$ 2.25	9.50%	3.59%
3	Hawaiian Elec.	\$ 1.30	\$ 2.00	11.50%	4.03%
4	IDACORP Inc.	\$ 1.20	\$ 2.10	8.00%	3.43%
5	MDU Resources	\$ 0.86	\$ 2.25	11.00%	6.80%
6	Pinnacle West Capital	\$ 2.15	\$ 3.15	9.00%	2.86%
7	PNM Resources	\$ 0.86	\$ 1.60	7.00%	3.24%
8	Puget Energy Inc.	\$ 1.12	\$ 2.00	9.50%	4.18%
9	Sempra Energy	\$ 1.00	\$ 3.75	12.50%	9.17%
10	UniSource Energy	\$ 0.80	\$ 1.80	9.00%	5.00%
11	Xcel Energy Inc.	\$ 1.05	\$ 1.50	10.00%	3.00%
12	Average	\$ 1.13	\$ 2.17	9.55%	4.50%

Source:

Value Line Investment Survey February 11, 2005.

PacifiCorp - Oregon

Multi-stage DCF Model - Electric East

<u>Line</u>	<u>Utility</u>	<u>Value Line Stock Price</u> (1)	<u>Internal Growth</u> (2)	<u>Value Line 2005 Dividends</u> (3)	<u>Dividend Yield</u> (4)	<u>Value Line 08-10 Dividends</u> (5)	<u>DCF</u> (6)
1	Gen. Vermont Pub. Serv.	\$ 22.54	4.37%	\$ 0.94	4.17%	\$ 1.08	8.32%
2	CH Energy Group	\$ 46.25	2.40%	\$ 2.16	4.67%	\$ 2.20	8.34%
3	Consol. Edison	\$ 42.88	1.80%	\$ 2.28	5.32%	\$ 2.36	9.02%
4	Constellation Energy	\$ 51.05	8.79%	\$ 1.34	2.62%	\$ 2.14	7.68%
5	Dominion Resources	\$ 72.45	6.25%	\$ 2.68	3.70%	\$ 3.00	7.73%
6	Duke Energy	\$ 27.25	4.43%	\$ 1.10	4.04%	\$ 1.30	8.28%
7	Duquesne Light Hldgs	\$ 18.35	3.96%	\$ 1.00	5.45%	\$ 1.04	9.16%
8	Energy East Corp.	\$ 25.96	2.75%	\$ 1.13	4.35%	\$ 1.45	8.98%
9	FirstEnergy Corp.	\$ 40.83	5.75%	\$ 1.24	3.04%	\$ 2.00	8.36%
10	FPL Group	\$ 65.03	3.92%	\$ 1.42	2.18%	\$ 1.90	6.49%
11	Green Mountain Pwr.	\$ 29.23	4.84%	\$ 1.00	3.42%	\$ 1.32	8.03%
12	Northeast Utilities	\$ 18.83	4.64%	\$ 0.67	3.56%	\$ 0.97	8.55%
13	NSTAR	\$ 55.53	4.56%	\$ 2.34	4.21%	\$ 2.70	8.39%
14	PPL Corp.	\$ 53.83	7.17%	\$ 1.84	3.42%	\$ 2.40	7.98%
15	Progress Energy	\$ 42.91	1.97%	\$ 2.38	5.55%	\$ 2.50	9.30%
16	Public Serv. Enterprise	\$ 53.56	4.04%	\$ 2.24	4.18%	\$ 2.40	8.06%
17	SCANA Corp.	\$ 38.42	4.57%	\$ 1.56	4.06%	\$ 1.90	8.44%
18	Southern Co.	\$ 32.51	4.32%	\$ 1.46	4.49%	\$ 1.70	8.71%
19	TECO Energy	\$ 15.82	4.25%	\$ 0.76	4.80%	\$ 1.00	9.59%
20	Average	\$ 39.64	4.46%	\$ 1.55	4.07%	\$ 1.86	8.39%

Notes:

¹ The Value Line Investment Survey, March 4, 2005

PacifiCorp - Oregon

Multi-stage DCF Model - Electric Central

<u>Line</u>	<u>Utility</u>	<u>Value Line Stock Price (1)</u>	<u>Internal Growth (2)</u>	<u>Value Line 2005 Dividends (3)</u>	<u>Dividend Yield (4)</u>	<u>Value Line 08 - 10 Dividends (5)</u>	<u>DCF (6)</u>
1	Alliant Energy	\$ 27.14	2.97%	\$ 1.08	3.98%	\$ 1.32	7.19%
2	Amer. Elec. Power	\$ 34.15	5.13%	\$ 1.40	4.10%	\$ 1.60	7.04%
3	Ameren Corp.	\$ 50.13	1.74%	\$ 2.54	5.07%	\$ 2.54	7.47%
4	Cinergy Corp.	\$ 40.33	3.74%	\$ 1.92	4.76%	\$ 2.08	7.52%
5	Cleco Corp.	\$ 20.61	4.60%	\$ 0.90	4.37%	\$ 0.90	6.79%
6	DTE Energy	\$ 44.75	6.69%	\$ 2.06	4.60%	\$ 2.10	7.10%
7	Empire Dist. Elec.	\$ 22.95	2.82%	\$ 1.28	5.58%	\$ 1.28	7.96%
8	Entergy Corp.	\$ 69.97	4.87%	\$ 2.21	3.16%	\$ 3.01	6.63%
9	Great Plains Energy	\$ 30.58	3.15%	\$ 1.66	5.43%	\$ 1.66	7.81%
10	MGE Energy	\$ 34.71	4.95%	\$ 1.37	3.95%	\$ 1.44	6.56%
11	NiSource Inc.	\$ 22.74	4.28%	\$ 0.92	4.04%	\$ 1.10	7.17%
12	OGE Energy	\$ 26.56	3.75%	\$ 1.33	5.01%	\$ 1.40	7.63%
13	Otter Tail Corp.	\$ 25.12	3.69%	\$ 1.12	4.46%	\$ 1.20	7.16%
14	TXU, Corp.	\$ 76.34	18.26%	\$ 2.27	2.97%	\$ 2.59	5.78%
15	Vectren Corp.	\$ 27.04	3.54%	\$ 1.19	4.40%	\$ 1.35	7.34%
16	Westar Energy	\$ 22.61	3.34%	\$ 0.94	4.16%	\$ 1.10	7.21%
17	Wisconsin Energy	\$ 34.92	5.91%	\$ 0.88	2.52%	\$ 1.04	5.34%
18	WPS Resources	\$ 52.08	5.08%	\$ 2.24	4.30%	\$ 2.36	7.00%
19	Average	\$ 36.82	4.92%	\$ 1.52	4.27%	\$ 1.67	7.04%

Source:

The Value Line Investment Survey, April 1, 2005.

PacifiCorp - Oregon

Multi-stage DCF Model - Electric West

<u>Line</u>	<u>Utility</u>	<u>Value Line Stock Price</u> (1)	<u>Internal Growth</u> (2)	<u>Value Line 2005 Dividends</u> (3)	<u>Dividend Yield</u> (4)	<u>Value Line 07 - 09 Dividends</u> (5)	<u>DCF</u> (6)
1	Avista Corp.	\$ 17.57	4.27%	\$ 0.54	3.07%	\$ 0.70	7.61%
2	Black Hills	\$ 31.79	3.59%	\$ 1.28	4.03%	\$ 1.40	8.05%
3	Hawaiian Elec.	\$ 27.12	4.03%	\$ 1.24	4.57%	\$ 1.30	8.44%
4	IDACORP Inc.	\$ 28.95	3.43%	\$ 1.20	4.14%	\$ 1.20	7.83%
5	MDU Resources	\$ 27.24	6.80%	\$ 0.74	2.72%	\$ 0.86	6.80%
6	Pinnacle West Capital	\$ 42.38	2.86%	\$ 1.91	4.51%	\$ 2.15	8.67%
7	PNM Resources	\$ 26.27	3.24%	\$ 0.74	2.82%	\$ 0.86	6.92%
8	Puget Energy Inc.	\$ 22.85	4.18%	\$ 1.00	4.38%	\$ 1.12	8.52%
9	Sempra Energy	\$ 39.38	9.17%	\$ 1.00	2.54%	\$ 1.00	6.14%
10	UniSource Energy	\$ 30.40	5.00%	\$ 0.68	2.24%	\$ 0.80	6.22%
11	Xcel Energy Inc.	\$ 17.66	3.00%	\$ 0.87	4.93%	\$ 1.05	9.44%
12	Average	\$ 28.33	4.50%	\$ 1.02	3.63%	\$ 1.13	7.69%

Source:

The Value Line Investment Analyzer, February 11, 2005.

PacifiCorp - Oregon

Multi-stage DCF Model - Electric East

<u>Line</u>	<u>Utility</u>	<u>Value Line Stock Price</u> (1)	<u>GDP Long-term Growth¹</u> (2)	<u>Value Line 2005 Dividends</u> (3)	<u>Dividend Yield</u> (4)	<u>Value Line 08-10 Dividends</u> (5)	<u>DCF</u> (6)
1	Cen. Vermont Pub. Serv.	\$ 22.54	5.30%	\$ 0.94	4.17%	\$ 1.08	9.10%
2	CH Energy Group	\$ 46.25	5.30%	\$ 2.16	4.67%	\$ 2.20	9.12%
3	Consol. Edison	\$ 42.88	5.30%	\$ 2.28	5.32%	\$ 2.36	9.79%
4	Constellation Energy	\$ 51.05	5.30%	\$ 1.34	2.62%	\$ 2.14	8.48%
5	Dominion Resources	\$ 72.45	5.30%	\$ 2.68	3.70%	\$ 3.00	8.53%
6	Duke Energy	\$ 27.25	5.30%	\$ 1.10	4.04%	\$ 1.30	9.07%
7	Duquesne Light Hldgs	\$ 18.35	5.30%	\$ 1.00	5.45%	\$ 1.04	9.93%
8	Energy East Corp.	\$ 25.96	5.30%	\$ 1.13	4.35%	\$ 1.45	9.75%
9	FirstEnergy Corp.	\$ 40.83	5.30%	\$ 1.24	3.04%	\$ 2.00	9.14%
10	FPL Group	\$ 65.03	5.30%	\$ 1.42	2.18%	\$ 1.90	7.31%
11	Green Mountain Pwr.	\$ 29.23	5.30%	\$ 1.00	3.42%	\$ 1.32	8.82%
12	Northeast Utilities	\$ 18.83	5.30%	\$ 0.67	3.56%	\$ 0.97	9.34%
13	NSTAR	\$ 55.53	5.30%	\$ 2.34	4.21%	\$ 2.70	9.17%
14	PPL Corp.	\$ 53.83	5.30%	\$ 1.84	3.42%	\$ 2.40	8.78%
15	Progress Energy	\$ 42.91	5.30%	\$ 2.38	5.55%	\$ 2.50	10.07%
16	Public Serv. Enterprise	\$ 53.56	5.30%	\$ 2.24	4.18%	\$ 2.40	8.86%
17	SCANA Corp.	\$ 38.42	5.30%	\$ 1.56	4.06%	\$ 1.90	9.23%
18	Southern Co.	\$ 32.51	5.30%	\$ 1.46	4.49%	\$ 1.70	9.49%
19	TECO Energy	\$ 15.82	5.30%	\$ 0.76	4.80%	\$ 1.00	10.35%
20	Average	\$ 39.64	5.30%	\$ 1.55	4.07%	\$ 1.86	9.18%

Source:

The Value Line Investment Survey, March 4, 2005

Notes:

¹ Blue Chip Financial Forecast, March 10, 2005 at 15.

PacifiCorp - Oregon

Multi-stage DCF Model - Electric Central

<u>Line</u>	<u>Utility</u>	<u>Value Line Stock Price</u> (1)	<u>GDP Long-term Growth¹</u> (2)	<u>Value Line 2005 Dividends</u> (3)	<u>Dividend Yield</u> (4)	<u>Value Line 08 - 10 Dividends</u> (5)	<u>DCF</u> (6)
1	Alliant Energy	\$ 27.14	5.30%	\$ 1.08	3.98%	\$ 1.32	9.15%
2	Amer. Elec. Power	\$ 34.15	5.30%	\$ 1.40	4.10%	\$ 1.60	9.01%
3	Ameren Corp.	\$ 50.13	5.30%	\$ 2.54	5.07%	\$ 2.54	9.42%
4	Cinergy Corp.	\$ 40.33	5.30%	\$ 1.92	4.76%	\$ 2.08	9.46%
5	Cleco Corp.	\$ 20.61	5.30%	\$ 0.90	4.37%	\$ 0.90	8.77%
6	DTE Energy	\$ 44.75	5.30%	\$ 2.06	4.60%	\$ 2.10	9.07%
7	Empire Dist. Elec.	\$ 22.95	5.30%	\$ 1.28	5.58%	\$ 1.28	9.87%
8	Entergy Corp.	\$ 69.97	5.30%	\$ 2.21	3.16%	\$ 3.01	8.62%
9	Great Plains Energy	\$ 30.58	5.30%	\$ 1.66	5.43%	\$ 1.66	9.74%
10	MGE Energy	\$ 34.71	5.30%	\$ 1.37	3.95%	\$ 1.44	8.55%
11	NiSource Inc.	\$ 22.74	5.30%	\$ 0.92	4.04%	\$ 1.10	9.13%
12	OGE Energy	\$ 26.56	5.30%	\$ 1.33	5.01%	\$ 1.40	9.57%
13	Otter Tail Corp.	\$ 25.12	5.30%	\$ 1.12	4.46%	\$ 1.20	9.12%
14	TXU, Corp.	\$ 76.34	5.30%	\$ 2.27	2.97%	\$ 2.59	7.81%
15	Vectren Corp.	\$ 27.04	5.30%	\$ 1.19	4.40%	\$ 1.35	9.29%
16	Westar Energy	\$ 22.61	5.30%	\$ 0.94	4.16%	\$ 1.10	9.17%
17	Wisconsin Energy	\$ 34.92	5.30%	\$ 0.88	2.52%	\$ 1.04	7.39%
18	WPS Resources	\$ 52.08	5.30%	\$ 2.24	4.30%	\$ 2.36	8.97%
19	Average	\$ 36.82	5.30%	\$ 1.52	4.27%	\$ 1.67	9.01%

Source:

The Value Line Investment Survey, April 1, 2005.

Notes:

¹ Blue Chip Financial Forecast, March 10, 2005 at 15.

PacifiCorp - Oregon

Multi-stage DCF Model - Electric West

<u>Line</u>	<u>Utility</u>	<u>Value Line Stock Price</u> (1)	<u>GDP Long-term Growth¹</u> (2)	<u>Value Line 2005 Dividends</u> (3)	<u>Dividend Yield</u> (4)	<u>Value Line 07 - 09 Dividends</u> (5)	<u>DCF</u> (6)
1	Avista Corp.	\$ 17.57	5.30%	\$ 0.54	3.07%	\$ 0.70	8.53%
2	Black Hills	\$ 31.79	5.30%	\$ 1.28	4.03%	\$ 1.40	8.96%
3	Hawaiian Elec.	\$ 27.12	5.30%	\$ 1.24	4.57%	\$ 1.30	9.34%
4	IDACORP Inc.	\$ 28.95	5.30%	\$ 1.20	4.14%	\$ 1.20	8.74%
5	MDU Resources	\$ 27.24	5.30%	\$ 0.74	2.72%	\$ 0.86	7.73%
6	Pinnacle West Capital	\$ 42.38	5.30%	\$ 1.91	4.51%	\$ 2.15	9.58%
7	PNM Resources	\$ 26.27	5.30%	\$ 0.74	2.82%	\$ 0.86	7.85%
8	Puget Energy Inc.	\$ 22.85	5.30%	\$ 1.00	4.38%	\$ 1.12	9.42%
9	Sempra Energy	\$ 39.38	5.30%	\$ 1.00	2.54%	\$ 1.00	7.08%
10	UniSource Energy	\$ 30.40	5.30%	\$ 0.68	2.24%	\$ 0.80	7.16%
11	Xcel Energy Inc.	\$ 17.66	5.30%	\$ 0.87	4.93%	\$ 1.05	10.33%
12	Average	\$ 28.33	5.30%	\$ 1.02	3.63%	\$ 1.13	8.61%

Source:

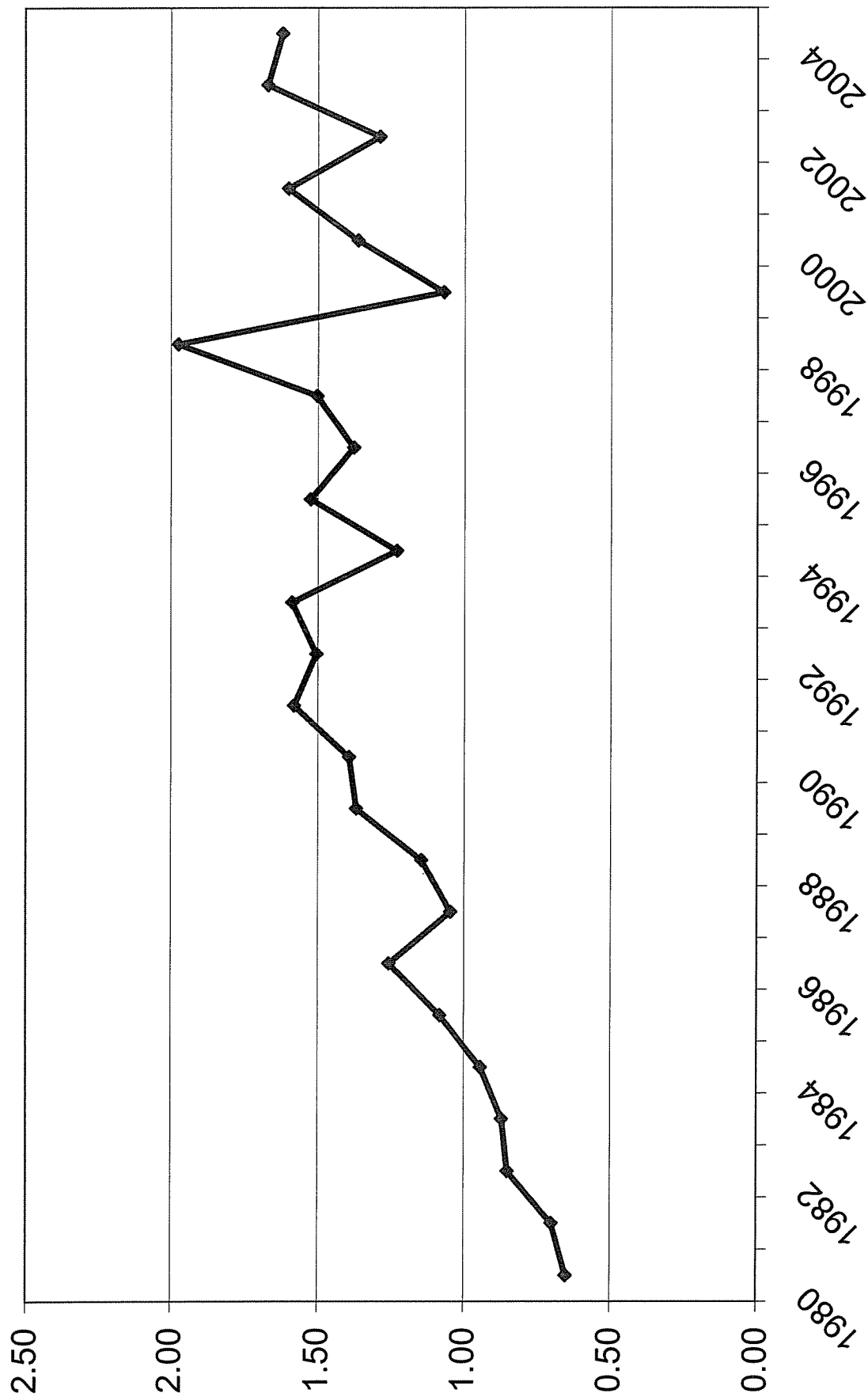
The Value Line Investment Analyzer, February 11, 2005.

Notes:

¹ Blue Chip Financial Forecast, March 10, 2005 at 15.

PacifiCorp - Oregon

Market/Book Ratio



Source:

2001-2004: C.A. Turner Utility Reports.

1980 - 1999: Mergent Public Utility Manual, 2003; at a15 and a17.

PacifiCorp - Oregon

Equity Risk Premium - Treasury Bond

<u>Line</u>	<u>Date</u>	<u>Treasury Bond Yield^{1*}</u> (1)	<u>Authorized Electric Returns²</u> (2)	<u>Indicated Risk Premium</u> (3)
1	2004	5.05%	10.73%	5.68%
2	2003	4.96%	10.97%	6.01%
3	2002	5.43%	11.16%	5.73%
4	2001	5.49%	11.09%	5.60%
5	2000	5.94%	11.43%	5.49%
6	1999	5.87%	10.77%	4.90%
7	1998	5.58%	11.66%	6.08%
8	1997	6.61%	11.40%	4.79%
9	1996	6.71%	11.39%	4.68%
10	1995	6.88%	11.55%	4.67%
11	1994	7.37%	11.34%	3.97%
12	1993	6.59%	11.41%	4.82%
13	1992	7.67%	12.09%	4.42%
14	1991	8.14%	12.55%	4.41%
15	1990	8.61%	12.70%	4.09%
16	1989	8.45%	12.97%	4.52%
17	1988	8.96%	12.79%	3.83%
18	1987	8.59%	12.99%	4.40%
19	1986	7.78%	13.93%	6.15%
20	Average	6.88%	11.84%	4.96%

Sources:

¹ Economic Report of the President, 2005: <http://a257.g.akamaitech.net/7/257/2422/17feb20051700/www.gpoaccess.gov/eop/2005/B73.xls>.

*After 2001 the 20-Yr constant maturity rate has been used due to discontinuation of the 30-yr T-Bond.

² Regulatory Research Associates, Inc., Regulatory Focus, Jan. 85-Dec. 96 and Jan.90-Dec.04.

PacifiCorp - Oregon

Equity Risk Premium - Utility Bond

<u>Line</u>	<u>Date</u>	<u>Average "A" Rating Utility Bond Yield¹</u> (1)	<u>Authorized Electric Returns²</u> (2)	<u>Indicated Risk Premium</u> (3)
1	2004	6.01%	10.73%	4.72%
2	2003	6.57%	10.97%	4.40%
3	2002	7.36%	11.16%	3.80%
4	2001	7.78%	11.09%	3.31%
5	2000	8.24%	11.43%	3.19%
6	1999	7.62%	10.77%	3.15%
7	1998	7.04%	11.66%	4.62%
8	1997	7.60%	11.40%	3.80%
9	1996	7.75%	11.39%	3.64%
10	1995	7.89%	11.55%	3.66%
11	1994	8.31%	11.34%	3.03%
12	1993	7.59%	11.41%	3.82%
13	1992	8.69%	12.09%	3.40%
14	1991	9.36%	12.55%	3.19%
15	1990	9.86%	12.70%	2.84%
16	1989	9.77%	12.97%	3.20%
17	1988	10.49%	12.79%	2.30%
18	1987	10.10%	12.99%	2.89%
19	1986	9.58%	13.93%	4.35%
20	Average	8.30%	11.84%	3.54%

Sources:

¹ Mergent Public Utility Manual, Mergent weekly News Reports, 2003.

² Regulatory Research Associates, Inc., Regulatory Focus,
Jan. 85-Dec. 96 and Jan.90-Dec.04.

PacifiCorp - Oregon

Series "A" Utility Bond Yields

<u>Line</u>	<u>Date</u>	"A" Rating Utility <u>Bond Yield</u> (1)
1	04/11/05	5.72%
2	04/04/05	5.71%
3	03/28/05	5.85%
4	03/21/05	5.90%
5	03/14/05	5.84%
6	03/07/05	5.68%
7	02/25/05	5.70%
8	02/22/05	5.74%
9	02/14/05	5.52%
10	02/08/05	5.47%
11	01/31/05	5.65%
12	01/24/05	5.67%
13	01/18/05	5.74%
14	Average	5.71%

Source:
www2.standardsandpoors.com

PacifiCorp - Oregon

Beta - Electric East

<u>Line</u>	<u>Utility</u>	Calculated Adjusted <u>Beta</u> ^{1,2} (2)	Value <u>Line</u> ³ (3)
1	Cen. Vermont Pub. Serv.	0.56	0.50
2	CH Energy Group	0.67	0.80
3	Consol. Edison	0.50	0.60
4	Constellation Energy	0.67	0.90
5	Dominion Resources	0.55	0.85
6	Duke Energy	0.85	1.10
7	Duquesne Light Hldgs	0.61	0.80
8	Energy East Corp.	0.63	0.85
9	FirstEnergy Corp.	0.49	0.75
10	FPL Group	0.56	0.70
11	Green Mountain Pwr.	0.55	0.60
12	Northeast Utilities	0.60	0.75
13	NSTAR	0.61	0.70
14	PPL Corp.	0.62	0.95
15	Progress Energy	0.62	0.80
16	Public Serv. Enterprise	0.62	0.85
17	SCANA Corp.	0.62	0.75
18	Southern Co.	0.62	0.65
19	TECO Energy	0.62	0.90
20	Group Average	0.61	0.78
21	Average	0.69	

Notes:

¹ The beta coefficient was calculated by regressing the weekly percentage change of the stock prices and the S&P 500 Index, used as market risk for the 5-year-period, through April 10, 2000 and April 11, 2005.

² Used Value Line beta formula to adjust the beta: $0.67 \times \text{Raw Beta} + 0.35(1.00)$.

³ Value Line Investment Survey, March 4, 2005.

PacifiCorp - Oregon

Beta - Electric Central

<u>Line</u>	<u>Utility</u>	Calculated Adjusted <u>Beta^{1,2}</u> (1)	Value <u>Line²</u> (2)
1	Alliant Energy	0.64	0.80
2	Amer. Elec. Power	0.62	1.15
3	Ameren Corp.	0.56	0.75
4	Cinergy Corp.	0.61	0.85
5	Cleco Corp.	0.80	1.10
6	DTE Energy	0.54	0.70
7	Empire Dist. Elec.	0.63	0.70
8	Entergy Corp.	0.51	0.75
9	Great Plains Energy	0.65	0.80
10	MGE Energy	0.65	0.60
11	NiSource Inc.	0.62	0.80
12	OGE Energy	0.54	0.70
13	Otter Tail Corp.	0.60	0.60
14	TXU Corp	0.62	1.00
15	Vectren Corp.	0.62	0.75
16	Westar Energy	0.62	0.80
17	Wisconsin Energy	0.62	0.70
18	WPS Resources	0.62	0.75
19	Group Average	0.62	0.79
20	Average		0.71

Notes:

¹ The beta coefficient was calculated by regressing the weekly percentage change of the stock prices and the S&P 500 Index, used as market risk for the 5-year-period, through April 10, 2000 and April 11, 2005.

² Used Value Line beta formula to adjust the beta: $0.67 \times \text{Raw Beta} + 0.35(1.00)$.

³ Value Line Investment Survey, April 1, 2005.

PacifiCorp - Oregon

Beta - Electric West

<u>Line</u>	<u>Utility</u>	Calculated Adjusted <u>Beta</u> ^{1,2} (1)	Value <u>Line</u> ² (2)
1	Avista Corp.	0.81	0.90
2	Black Hills	0.77	0.95
3	Hawaiian Elec.	0.58	0.65
4	IDACORP Inc.	0.72	0.85
5	MDU Resources	0.65	0.85
6	Pinnacle West Capital	0.67	0.85
7	PNM Resources	0.73	0.85
8	Puget Energy Inc.	0.62	0.75
9	Sempra Energy	0.62	0.90
10	UniSource Energy	0.62	0.65
11	Xcel Energy Inc.	0.62	0.80
12	Group Average	0.67	0.82
13	Average	0.75	

Notes:

¹ The beta coefficient was calculated by regressing the weekly percentage change of the stock prices and the S&P 500 Index, used as market risk for the 5-year-period, through April 10, 2000 and April 11, 2005.

² Used Value Line beta formula to adjust the beta: $0.67 \times \text{Raw Beta} + 0.35(1.00)$.

³ Value Line Investment Survey, February 11, 2005.

PacifiCorp - Oregon

CAPM Return Estimate

<u>Line</u>	<u>Description</u>	<u>Historical Premium</u>
1	Risk Free Rate ¹	5.7%
2	Risk Premium ²	6.6%
3	Beta ³	0.70
4	CAPM	10.3%

		<u>Prospective Premium</u>
5	Risk Free Rate ¹	5.7%
6	Risk Premium ²	6.2%
7	Beta ³	0.70
8	CAPM	10.0%
9	CAPM Average	10.2%

Sources:

¹ Blue Chip Financial Forecasts; April 1, 2005, at pp. 2.

² SBBi; 2005 at pp. 33 & 118.

³ Average of the Beta Coefficient estimated by Value Line Investment Survey and the Calculated Adjusted Beta for the East, Central, and West Electric Utilities.

Pacificorp - Oregon

Discounted Cash Flow Analysis Traditional Constant Growth DCF Model

Line	Utility	Stock Price (P0) (1)	Next Year's Div (D1) (2)	Dividend Yield (3)	2008 DPS (4)	2008 EPS (5)	Retention Rate (B) (6)	2008 BVPS (7)	ROE (R) (8)	BxR Growth (9)	Zacks (10)	Value Line (11)	GDP (12)	Average Growth (13)	ROE (14)
1	Ameren Corp.	44.23	2.54	5.74%	2.54	3.05	16.72%	31.70	9.62%	1.61%	3.00%	N/A	5.30%	3.30%	9.0%
2	CH Energy Group	44.88	2.16	4.81%	2.16	2.75	21.45%	32.50	8.46%	1.82%	N/A	0.50%	5.30%	2.54%	7.4%
3	Cleco Corporation	17.47	0.90	5.15%	0.90	1.50	40.00%	12.50	12.00%	4.80%	N/A	1.00%	5.30%	3.70%	8.9%
4	Con. Edison	40.31	2.28	5.66%	2.34	2.90	19.31%	31.55	9.19%	1.77%	2.80%	N/A	5.30%	3.29%	8.9%
5	DTE Energy Co.	40.34	2.06	5.11%	2.10	3.75	44.00%	38.50	9.74%	4.29%	4.70%	4.00%	5.30%	4.57%	9.7%
6	FPL Group, Inc.	65.59	2.84	4.33%	3.56	5.85	39.15%	51.45	11.37%	4.45%	4.60%	4.50%	5.30%	4.71%	9.0%
7	MGE Energy, Inc.	31.69	1.37	4.32%	1.40	2.35	40.43%	18.00	13.06%	5.28%	N/A	6.00%	5.30%	5.53%	9.8%
8	Northeast Utilities	19.02	0.67	3.52%	0.89	2.15	58.60%	22.05	9.75%	5.71%	4.60%	10.00%	5.30%	6.40%	9.9%
9	NSTAR	47.44	2.30	4.85%	2.50	4.00	37.50%	32.50	12.31%	4.62%	4.30%	3.00%	5.30%	4.30%	9.2%
10	Progress Energy	42.93	2.38	5.54%	2.5	3.20	21.88%	36.35	8.80%	1.93%	3.60%	N/A	5.30%	3.61%	9.2%
11	SCANA Corp.	36.55	1.54	4.21%	1.78	3.25	45.23%	28.50	11.40%	5.16%	4.50%	5.50%	5.30%	5.11%	9.3%
12	Sempra Energy	35.07	1.00	2.85%	1.00	3.75	73.33%	30.50	12.30%	9.02%	5.60%	5.00%	5.30%	6.23%	9.1%
13	Southern Co.	29.37	1.45	4.94%	1.63	2.45	33.47%	17.65	13.88%	4.65%	4.40%	5.00%	5.30%	4.84%	9.8%
14	Vectren Corp.	24.64	1.19	4.83%	1.31	2.10	37.62%	16.85	12.46%	4.69%	6.40%	5.50%	5.30%	5.47%	10.3%
15	Wisconsin Energy	32.02	0.87	2.72%	1.00	2.75	63.64%	27.75	9.91%	6.31%	6.10%	4.50%	5.30%	5.55%	8.3%
16	Xcel Energy, Inc.	17.02	0.87	5.11%	1.00	1.50	33.33%	15.25	9.84%	3.28%	3.50%	2.50%	5.30%	3.64%	8.8%
17	Group Average									4.34%	4.47%	4.38%	5.30%	4.55%	9.2%
18	Group Median														9.1%

Source:
PPL Exhibit 203; Hadaway at 2.

PacifiCorp - Oregon

Discounted Cash Flow Analysis Constant Growth DCF Model Long-Term GDP Growth

<u>Line</u>	<u>Utility</u>	<u>Stock Price (P0)</u> (15)	<u>Next Year's Div (D1)</u> (16)	<u>Dividend Yield</u> (17)	<u>GDP</u> (18)	<u>ROE</u> Col 17+18 (19)
1	Ameren Corp.	44.23	2.54	5.74%	5.30%	11.04%
2	CH Energy Group	44.88	2.16	4.81%	5.30%	10.11%
3	Cleco Corporation	17.47	0.90	5.15%	5.30%	10.45%
4	Con. Edison	40.31	2.28	5.66%	5.30%	10.96%
5	DTE Energy Co.	40.34	2.06	5.11%	5.30%	10.41%
6	FPL Group, Inc.	65.59	2.84	4.33%	5.30%	9.63%
7	MGE Energy, Inc.	31.69	1.37	4.32%	5.30%	9.62%
8	Northeast Utilities	19.02	0.67	3.52%	5.30%	8.82%
9	NSTAR	47.44	2.30	4.85%	5.30%	10.15%
10	Progress Energy	42.93	2.38	5.54%	5.30%	10.84%
11	SCANA Corp.	36.55	1.54	4.21%	5.30%	9.51%
12	Sempra Energy	35.07	1.00	2.85%	5.30%	8.15%
13	Southern Co.	29.37	1.45	4.94%	5.30%	10.24%
14	Vectren Corp.	24.64	1.19	4.83%	5.30%	10.13%
15	Wisconsin Energy	32.02	0.87	2.72%	5.30%	8.02%
16	Xcel Energy, Inc.	17.02	0.87	5.11%	5.30%	10.41%
17	Group Average			4.61%	5.30%	9.9%
18	Group Median			4.84%		10.1%

Source:

PPL Exhibit 203; Hadaway at 3.

Pacificorp - Oregon

Discounted Cash Flow Analysis Low Near-Term Growth Two-Stage Growth DCF Model

Line	Utility	Next Year's Div.(D ₁) (20)	2008 DPS (21)	Annual Change to 2008 (22)	Stock Price (P ₀) (23)	Year 1 Div (24)	Year 2 Div (25)	Year 3 Div (26)	Year 4 Div (27)	Year 5 Div (28)	Year 5-150 Growth (29)	ROE =IRR (30)
1	Ameren Corp.	2.54	2.54	0.00	-44.23	2.54	2.54	2.54	2.54	2.67	5.30%	10.3%
2	CH Energy Group	2.16	2.16	0.00	-44.88	2.16	2.16	2.16	2.16	2.27	5.30%	9.5%
3	Cleco Corporation	0.9	0.90	0.00	-17.47	0.90	0.90	0.90	0.90	0.95	5.30%	9.8%
4	Con. Edison	2.28	2.34	0.02	-40.31	2.28	2.30	2.32	2.34	2.46	5.30%	10.3%
5	DTE Energy Co.	2.06	2.10	0.01	-40.34	2.06	2.07	2.09	2.10	2.21	5.30%	9.8%
6	FPL Group, Inc.	2.84	3.56	0.24	-65.59	2.84	3.08	3.32	3.56	3.75	5.30%	9.9%
7	MGE Energy, Inc.	1.37	1.40	0.01	-31.69	1.37	1.38	1.39	1.40	1.47	5.30%	9.1%
8	Northeast Utilities	0.67	0.89	0.07	-19.02	0.67	0.74	0.82	0.89	0.94	5.30%	9.3%
9	NSTAR	2.3	2.50	0.07	-47.44	2.30	2.37	2.43	2.50	2.63	5.30%	9.8%
10	Progress Energy	2.38	2.50	0.04	-42.93	2.38	2.42	2.46	2.50	2.63	5.30%	10.3%
11	SCANA Corp.	1.54	1.78	0.08	-36.55	1.54	1.62	1.70	1.78	1.87	5.30%	9.5%
12	Sempra Energy	1	1.00	0.00	-35.07	1.00	1.00	1.00	1.00	1.05	5.30%	7.7%
13	Southern Co.	1.45	1.63	0.06	-29.37	1.45	1.51	1.57	1.63	1.72	5.30%	10.1%
14	Vectren Corp.	1.19	1.31	0.04	-24.64	1.19	1.23	1.27	1.31	1.38	5.30%	9.9%
15	Wisconsin Energy	0.87	1.00	0.04	-32.02	0.87	0.91	0.96	1.00	1.05	5.30%	7.9%
16	Xcel Energy, Inc.	0.87	1.00	0.04	-17.02	0.87	0.91	0.96	1.00	1.05	5.30%	10.3%
17	Group Average											9.6%
18	Group Median											9.8%

Source:
PPL Exhibit 203; Hadaway at 4.

Davison Van Cleve PC

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May 9, 2005

Via Electronic and US Mail

Public Utility Commission
Attn: Filing Center
550 Capitol St. NE #215
P.O. Box 2148
Salem OR 97308-2148

Re: In the Matter of PACIFIC POWER & LIGHT Request for a
General Rate Increase in the Company's Oregon Annual Revenues
Docket No. UE 170

Dear Filing Center:

Enclosed for filing in the above-referenced proceeding please find the original and five (5) copies of the Direct Testimony of Michael Gorman on behalf of the Citizens' Utility Board and the Industrial Customers of Northwest Utilities.

Thank you for your assistance.

Sincerely,

/s/ Christian Griffen
Christian W. Griffen

Enclosures

cc: Service List

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that I have this day served the foregoing Direct Testimony of Michael Gorman on behalf of the Citizens' Utility Board and the Industrial Customers of Northwest Utilities upon the parties on the service list by causing the same to be mailed, postage-prepaid, through the U.S. Mail.

Dated at Portland, Oregon, this 9th day of May, 2005.

/s/ Christian Griffen
Christian W. Griffen

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