June 8, 2006

Oregon Public Utility Commission
Proceedings Division
550 Capitol Street
Salem, OR 97310

ATTN: Ms. Vikie Bailey-Goggins
Commission Secretary

Re: Docket No. UF _____: In the Matter of the Application of PACIFICORP for authority to issue up to 30,000,000 Shares of Common Stock to its Parent

Dear Commissioners:

PacifiCorp (Company) respectfully requests that the Commission enter its order, effective upon issuance, authorizing the Company to issue, from time to time and for cash, up to 30,000,000 shares of its Common Stock (Shares) to the Company's immediate corporate parent, PPW Holdings LLC, a Delaware limited liability company (Parent) and wholly-owned subsidiary of MidAmerican Energy Holdings Company. The Company requests that authority for such sales and issuances remain effective until all the 30,000,000 Shares have been issued.

As discussed in the enclosed application, the Company believes that the proposed sale and issuance of the Shares to the Parent, from time to time and in amounts that the Company may deem appropriate, would be reasonably required to (i) maintain or improve its capitalization ratio, (ii) maintain or improve the Company's access to capital on reasonable terms, (iii) assist the Company in maintaining its current investment grade credit ratings and (iv) enable the Company to acquire, construct, improve and maintain sufficient utility facilities to serve its customers adequately and reliably at a reasonable cost. In addition, the Company anticipates ongoing capital expenditure requirements, including those contemplated in the Commitments in the Commission's Order No. 06-121 issued in Docket No. UM 1209. The Parent may make common equity contributions to the Company in exchange for the Company's issuance of Shares to the Parent, but such contributions would be at the Parent's option and not be subject to specific time or dollar limitations. In addition, the Parent may elect to contribute equity into the Company for no consideration (*i.e.*, without the Company issuing any Shares), and the Company believes that such contributions may be made without an order of the Commission. As such, any

such contributions would not affect the number of Shares included in any order issued by the Commission in this docket.

The requested authority is consistent with the Company's filings with the Idaho Public Utilities Commission, the Public Service Commission of Utah and the Washington Utilities and Transportation Commission for the Company to issue the Shares to the Parent.

The enclosed Exhibit D (Balance Sheet) and Exhibit E (Income Statement) contain pro forma calculations of issuances of all the Shares, in each case based on the Company's unaudited financial statements for the quarter ended December 31, 2005 and assuming that all the Shares were issued and sold in their entirety at the same time. These calculations assume a per Share price equal to $11.08, the per share book value of the Company's Common Stock at February 28, 2006. Because the issuances are expected to occur over time, the Company's actual capitalization will likely be different from that included in the enclosed pro forma financial statements.

As the Company's financial flexibility is important, the Company respectfully requests that the Commission issue its order on or before July 12, 2006. The Company also respectfully requests twenty certified copies of any order issued in this matter.

Your attention to this matter is appreciated.

Sincerely,

Bruce N. Williams
Treasurer

Enclosures: Application, including exhibits (1 original and 4 copies)
Proposed Form of Order (1 original and 4 copies)
CD Rom containing Cover Letter, Application (including exhibits) and proposed Form of Order (1 CD Rom)

BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UF _____

In the Matter of the Application of PACIFICORP for authority to issue and sell up to 30,000,000 Shares of Common Stock to its Parent	**APPLICATION**

PacifiCorp (Company) hereby applies for an order of the Public Utility Commission of Oregon (Commission) authorizing the Company to issue and sell, from time to time and for cash, up to 30,000,000 shares of its Common Stock (Shares) to its immediate corporate parent, PPW Holdings LLC, a Delaware limited liability company (Parent) and a wholly-owned subsidiary of MidAmerican Energy Holdings Company, without a further order of the Commission. The Company requests that such authorization remain in effect until all the Shares have been issued. This application is filed pursuant to ORS 757.415, ORS 757.430 and OAR 860-027-0030.

In support of this application, the Company represents that:

(a) The official name of the applicant and address of its principal business office:

PacifiCorp
825 N.E. Multnomah, Suite 2000
Portland, OR 97232

(b) The state and date of incorporation; each state in which it operates as a utility:

The Company was incorporated under Oregon law in August 1987 for the purpose of facilitating consummation of a merger with Utah Power & Light Company, a Utah corporation, and changing the state of incorporation of the Company from Maine to Oregon. The Company uses, or intends to use (as applicable), the assumed business names of Pacific Power (in the Company's Oregon, California and Washington service territories), Utah Power (in the

Company's Utah service territories, however, this usage is subject to further change) and Rocky Mountain Power (in the Company's Idaho and Wyoming service territories).

(c) The name, address, and telephone number of persons authorized to receive notices and communications:

Bruce N. Williams, Treasurer
PacifiCorp
825 NE Multnomah, Suite 1900
Portland, OR 97232
Telephone: (503) 813-5662

Natalie Hocken, Assistant General Counsel
Pacific Power
825 NE Multnomah, Suite 1800
Portland, OR 97232
Telephone: (503) 813-7205

It is also requested that copies of all notices and communications be provided to the following person:

Gary R. Barnum
Stoel Rives LLP
900 S.W. Fifth Avenue, Suite 2600
Portland, OR 97204
Telephone: (503) 294-9114

All formal correspondence and Staff requests regarding this application should be addressed to:

By e-mail (preferred): datarequest@pacificorp.com

By regular mail: Data Request Response Center
PacifiCorp
825 NE Multnomah, Suite 300
Portland, Oregon 97232

By fax: (503) 813-6060

Informal questions should be directed to Laura Beane at (503) 813-5542.

(d) Names, titles and addresses of the principal officers:

Name and Title	Address
Gregory E. Abel Chief Executive Officer and Chairman	825 N.E. Multnomah, Suite 2000 Portland, OR 97232
William J. Fehrman President, PacifiCorp Energy	1407 West North Temple Salt Lake City, UT 84116
Andrew P. Haller Senior Vice President, General Counsel and Corporate Secretary	825 N.E. Multnomah, Suite 2000 Portland, OR 97232
A. Robert Lasich Vice President and General Counsel, PacifiCorp Energy	1407 West North Temple Salt Lake City, UT 84116
Mark C. Moench Senior Vice President and General Counsel, Rocky Mountain Power	One Utah Center, 23rd Floor 201 South Main Salt Lake City, UT 84111
Richard D. Peach Senior Vice President and Chief Financial Officer	825 N.E. Multnomah, Suite 2000 Portland, OR 97232
A. Richard Walje President, Rocky Mountain Power	One Utah Center, 23rd Floor 201 South Main Salt Lake City, UT 84111
Stanley K. Watters President, Pacific Power	825 N.E. Multnomah, Suite 2000 Portland, OR 97232
Bruce N. Williams Treasurer	825 N.E. Multnomah, Suite 1900 Portland, OR 97232

(e) Background:

ORS 757.430 authorizes the Commission to grant permission for the issuance of, among other securities and evidences of indebtedness, stock in the amount applied for, and to attach to the exercise of the permission such condition or conditions as the Commission deems reasonable and necessary. In this application, the Company is seeking an order of the Commission authorizing the Company to issue the Shares without a further order of the Commission. The Company requests that such authorization remain in effect until all the Shares have been issued. The Parent may also make equity contributions to the Company for which no Shares would be issued and no Commission order would be required.

All of the Company's issued and outstanding Common Stock is directly held by the Parent. The Parent is directly owned by MidAmerican Energy Holdings Company, an Iowa corporation.

(f) Full description of the securities proposed to be issued:

1. Common Stock description: The Company will issue the Shares of its Common Stock pursuant to its Third Restated Articles of Incorporation, as amended (Articles). The Articles authorize the Company to issue up to 750,000,000 Shares of its Common Stock. As of the date of the Company's application, 357,060,915 Shares of Common Stock were issued and outstanding, and all of those Shares are held by the Parent.

2. Description of the transactions proposed: The Company proposes to issue and sell the Shares, from time to time and for cash, pursuant to one or more subscription or other agreements between the Company and the Parent. Sales would be made at a purchase price not less than the book value of the Common Stock, determined as of the last day of the month prior to each issuance.

3. Justification for the transactions: The Company believes that the proposed sale and issuance of the Shares to the Parent, from time to time and in amounts that the Company and the Parent may deem appropriate, would be reasonably required to (i) maintain or improve its capitalization ratio, (ii) maintain or improve the Company's access to capital on reasonable terms, (iii) assist the Company in maintaining its current investment grade credit ratings and (iv) enable the Company to acquire, construct, improve and maintain sufficient utility facilities to serve its customers adequately and reliably at a reasonable cost.

The Company's senior long-term secured debt is currently rated "A-" by Standard & Poor's and "A3" by Moody's.

(g) Effect of the transactions:

The issuances will enable the Company to maintain or improve its capitalization. The enclosed Exhibits D and E contain pro forma calculations that are based on the Company's unaudited financial statements for the quarter ended December 31, 2005 and that assume the issuance of all of the 30,000,000 Shares for consideration totaling approximately $332.4 million. These calculations also assume a per share price equal to $11.08 per Share, the book value of Common Stock at February 28, 2006. As described above, the exact amount of the issuances of the Shares will vary with the book value of the Company's Common Stock, and the timing of such issuances, if and when they occur, is at the discretion of the Company and the Parent. As such, the calculations included on Exhibits D and E are not indicative of the exact pricing terms and timing of the proposed issuance of the Shares, and the Company's capitalization will likely be different from that included in Exhibit D.

(h) Statement that applications for authority to finance are required to be filed with state governments:

In 2002 and 2005, the Company filed applications (collectively, PHI Equity Applications) for authority to issue and sell Shares of Common Stock to its former direct corporate parent, PacifiCorp Holdings, Inc., a Delaware corporation and an indirect subsidiary of Scottish Power plc, a public limited company incorporated under the laws of Scotland. The PHI Equity Applications were made with the Commission and also with the Idaho Public Utilities Commission and the Washington Utilities and Transportation Commission. The Company subsequently issued 59,736,311 Shares of its Common Stock to PacifiCorp Holdings, Inc. for a total consideration of approximately $635 million.[1] The Company is making new filings with those commissions, as well as with the Public Service Commission of Utah, and such filings are (except for the identification of the Company's "Parent") substantially similar to the PHI Equity Applications. This application is substantially similar to the other filings. The California Public Utilities Commission and the Wyoming Public Service Commission have exempted the Company from their respective securities statutes.

(i) A statement of the facts relied upon to show that the issuance is appropriate:

As a public utility, the Company is expected to acquire, construct, improve, and maintain sufficient utility facilities to serve its customers adequately and reliably at reasonable cost. The proposed issuances are part of a program to finance the Company's facilities, taking into

[1] While authority to issue approximately 5.1 million Shares of the Company's Common Stock to PacifiCorp Holdings, Inc. technically remains under the orders issued in connection with the PHI Equity Applications, the Company has no intent to issue any such Shares to PacifiCorp Holdings, Inc. because it is no longer the Company's "Parent." As such, the Company acknowledges that the unused authority that remains under the Commission's Order Nos. 02-769 and 05-729 should be terminated.

consideration prudent capital ratios, earnings coverage tests and market uncertainties as to the relative merits of the various types of securities the Company could sell.

Accordingly, the proposed issuances (1) are for lawful objects within the corporate purposes of the Company, (2) are compatible with the public interest, (3) are necessary or appropriate for or consistent with the proper performance by the Company of its service as a public utility, (4) will not impair its ability to perform that service, and (5) are reasonably necessary or appropriate for these purposes.

(j) Use of proceeds:

The Company intends to use the proceeds of the issuances to (1) repay or refinance outstanding short- and long-term indebtedness, (2) reimburse the Company's treasury for monies expended by the Company for purposes enumerated in ORS 757.415(1), and (3) finance the acquisition of utility property, or the construction, completion, extension or improvement of its facilities or service.

(k) A summary of rate changes which occurred during or after or which will become effective after the period described by the income statement included as Exhibit G:

Please see the disclosures beginning on page 13 of the Company's Annual Report on Form 10-K for the year ended March 31, 2006, enclosed herewith as Exhibit G. In addition:

1. In January 2005, the Idaho Public Utility Commission approved the Company's application to reduce the BPA credit effective January 31, 2005. The change will result in an 8.0% reduction in the credit given to residential customers and a 20.5% reduction in the credit given to small-farm customers. Changes in the level of the BPA credit affect the net electricity costs to customers but do not impact the Company's results of operations or earnings.

2. In February 2005, the Public Service Commission of Utah approved a stipulation settling a general rate case. Under the stipulation, the Company was awarded an increase in prices of $51.0 million annually, resulting in an average price increase of 4.7%, effective as of March 1, 2005.

(l) Exhibits:

The following exhibits are made a part of this application:

Exhibit	Description
A	Third Restated Articles of Incorporation effective November 20, 1996, as amended effective November 29, 1999
B	Bylaws, as amended effective May 23, 2005
C*	Resolutions of the Board of Directors authorizing the proposed issuances
D	Balance Sheet, actual and pro forma, dated December 31, 2005
E	Income Statement, actual and pro forma, for the 12 months ended December 31, 2005
F	Source and Uses of Treasury Funds, actual and pro forma, dated December 31, 2005
G	Annual Report on Form 10-K for the year ended March 31, 2006 http://sec.gov/Archives/edgar/data/75594/000007559406000028/p10k.htm

* Exhibit to be filed with the Commission as soon as available.

(m) The date by which Commission action is requested:

By July 12, 2006.

CONCLUSION

The Company respectfully requests that the Commission enter its order in this matter, effective upon issuance, granting authority to the Company for the proposed issuance and sale to the Company's Parent, from time to time and for cash, of up to 30,000,000 Shares of the Company's Common Stock without a further order of the Commission. The Company requests that such authorization remain in effect until all the Shares have been issued.

Dated at Portland, Oregon on June 8, 2006.

PACIFICORP

By: _____
Bruce N. Williams
Treasurer

_____
Gary R. Barnum for
Stoel Rives LLP
900 S.W. Fifth Avenue, Suite 2600
Portland, OR 97204-1268
Telephone: (503) 294-9114
Attorneys for PacifiCorp

VERIFICATION

I, Bruce N. Williams, declare, under penalty of perjury, that I am the duly appointed Treasurer of PacifiCorp and am authorized to make this verification. The application and the attached exhibits were prepared at my direction and were read by me. I know the contents of the application and the attached exhibits, and they are true, correct, and complete of my own knowledge except those matters stated on information or belief which I believe to be true.

WITNESS my hand and the seal of PacifiCorp on this 8th day of June, 2006.

_____
Bruce N. Williams

(Seal)

ORDER NO. _____

ENTERED

BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UF _____

In the Matter of the Application of PACIFICORP for authority to issue and sell up to 30,000,000 Shares of Common Stock to its Parent	))))	**ORDER**

DISPOSITION: APPLICATION APPROVED WITH CONDITIONS

On June ___, 2006, PacifiCorp (Company) filed an application with the Oregon Public Utility Commission (Commission) pursuant to ORS 757.415, ORS 757.430 and OAR 860-027-0030 for authority to issue and sell up to 30,000,000 shares of the Company's Common Stock (Shares) to its immediate corporate parent, PPW Holdings LLC, a Delaware limited liability company (Parent) and a wholly-owned subsidiary of MidAmerican Energy Holdings Company. Such issuances would be separate from any equity contributions by the Parent to the Company for which no Shares would be issued. In 2002 and 2005, the Company had sought and received authority from the Commission (Order Nos. 02-769 and 05-729, respectively) to issue up to a fixed number of Shares of Common Stock to its former direct corporate parent, PacifiCorp Holdings, Inc.

The Company represents that the issuance of Shares will enable the Company to maintain or improve its capitalization ratio and its access to capital on reasonable terms. The purposes for which the equity will be incurred are for the acquisition of utility property and the construction, extension, and improvement or maintenance of facilities and service, as permitted under ORS 757.415. The basis for the current request is detailed in Staff's recommendation memo, attached as Appendix A.

Based on a review of the application and the Commission's records, the Commission finds that this application satisfies applicable statutes and administrative rules. At its public meeting on _____, 2006, the Commission adopted Staff's recommendation and approved PacifiCorp's current request.

ORDER

IT IS ORDERED that the application of PacifiCorp for authorization to issue Common Stock, is granted, subject to the following conditions:

1. PacifiCorp shall file the usual Report of Securities Issued and Disposition of Net Proceeds statements as soon as possible after any issuance. This report shall include the total amount, per unit price, total expenses and net proceeds of the issuance, as well as interest costs and credit ratings.

2. The authorization should remain in effect as long as the Company maintains senior secured debt ratings of at least BBB- and Baa3 (*i.e.*, "investment-grade") from Standard & Poor's and Moody's Investors' Service, Inc., respectively.

3. The Commission acknowledges that the unused authority previously granted by the Commission in its Order Nos. 02-769 and 05-729 is no longer in effect.

4. The Commission reserves the right to review all financial aspects of this arrangement in any rate proceeding or alternative form of regulation.

5. For ratemaking purposes, the Commission reserves judgment on the reasonableness of the Company's capital costs, capital structure and the commissions and expenses incurred for security issuances. In its next rate proceeding, the Company shall be required to show that its capital costs, including imbedded expenses, and structure are just and reasonable.

Made, entered and effective _____, 2006.

BY THE COMMISSION:

_____

Becky L. Beier
Commission Secretary

A party may request rehearing or reconsideration of this order pursuant to ORS 756.561. A party may appeal this order to a court pursuant to ORS 756.580.

EXHIBIT A

CERTIFICATE

State of Oregon

OFFICE OF THE SECRETARY OF STATE
Corporation Division

I, BILL BRADBURY, Secretary of State of Oregon, and Custodian of the Seal of said State, do hereby certify:

That the attached copy of the
Third Restated
Articles of Incorporation
filed on
August 11, 1987
and all amendments thereto
for
PACIFICORP
is a true copy of the original document that has been filed with this office.

In Testimony Whereof, I have hereunto set my hand and affixed hereto the Seal of the State of Oregon.

BILL BRADBURY, Secretary of State

By Debra L. Virag

Debra L. Virag
February 13, 2006

Come visit us on the internet at http://www.filinginoregon.com
FAX (503) 378-4381

Submit the original
and one true copy
$10.00

Registry Number:
085297-86

SECRETARY OF STATE
Corporation Division
Business Registry
158 12th Street NE
Salem, OR 97310-0210
(503) 378-4166

THIS SPACE FOR OFFICE USE ONLY
11/20/96 4:3[illegible] 950
REG $10.00
FILED
NOV 2 0 1996
SECRETARY OF STATE

RESTATED ARTICLES OF INCORPORATION
Business Corporation

PLEASE TYPE OR PRINT LEGIBLY IN BLACK INK

1. Name of the corporation prior to amendment: PacifiCorp

2. New name of the corporation (if changed): _____

3. **A copy of the restated articles is attached.**

4. Check the appropriate statement(s):

[X] The restated articles contain amendments **which do not require shareholder approval.** These amendments were duly adopted by the board of directors.

[ ] The restated articles contain amendments **which require shareholder approval.** The date of adoption of the restated articles was _____, 19___, which is the date of adoption of amendments included in the restated articles. The vote of the shareholders was as follows:

Class or series of shares	Number of shares outstanding	Number of votes entitled to be cast	Number of votes cast for	Number of votes cast against

5. Other provisions, if applicable:

Execution: _____ Richard T. O'Brien, Senior Vice President and Chief Financial Officer
Signature — Printed name — Title

Person to contact about this filing: John M. Schweitzer (503) 872-4821
Name — Daytime phone number

Makes checks payable to the Corporation Division. Submit the completed form and fee to: Corporation Division, Business Registry, 158 12th Street NE, Salem, Oregon 97310-0210.

BC-4 (4/90)

11/20

085297-86

THIRD RESTATED ARTICLES OF

INCORPORATION

of

PACIFICORP

FILED
NOV 2 0 1996
SECRETARY OF STATE

ARTICLE I

The name of the Company is PacifiCorp.

ARTICLE II

The purposes for which the Company is organized are the manufacture, production, generation, storage, utilization, purchase, sale, supply, transmission, distribution, or disposition of electric energy, natural or artificial gas, water or steam, or power produced thereby; and the transaction of any and all other lawful businesses for which corporations may be organized under the Oregon Business Corporation Act.

ARTICLE III

(1) The total amount of the authorized capital stock of the Company is 769,626,533 shares, divided into 126,533 shares of 5% Preferred Stock of the stated value of $100 per share, 3,500,000 shares of Serial Preferred Stock of the stated value of $100 per share, 16,000,000 shares of No Par Serial Preferred Stock (the 5% Preferred Stock, the Serial Preferred Stock and the No Par Serial Preferred Stock collectively referred to herein as the "Senior Securities"), and 750,000,000 shares of Common Stock.

(2) The 5% Preferred Stock, pari passu with the other Senior Securities, shall be entitled, but only when and as declared by the Board of Directors, out of funds legally available for the payment of dividends, in preference to the Common Stock, to dividends at the rate of

5 per centum (5%) per annum of the stated value thereof, and no more, payable quarterly on February 15, May 15, August 15 and November 15 of each year or otherwise as the Board of Directors may determine (such dates, including any changes thereof, being hereinafter referred to as the "Payment Dates"), to shareholders of record as of a date to be fixed by the Board of Directors, not exceeding thirty (30) days and not less than ten (10) days preceding the Payment Dates, such dividends to be cumulative from the day immediately following the last period for which dividends on the 5% Preferred Stock of PacifiCorp, a Maine corporation, have been declared (such date being hereinafter referred to as the "Accrual Date"). The Serial Preferred Stock, pari passu with the other Senior Securities, shall be entitled, but only when and as declared by the Board of Directors, out of funds legally available for the payment of dividends, in preference to the Common Stock, to dividends at the rate or rates, which may be subject to adjustment, as to each series thereof, fixed and determined pursuant to Section (5) or (6) of this Article at the time of the creation of such series, and no more, payable as the Board of Directors may from time to time determine, such dividends to be cumulative from the date of issue of such stock or as otherwise provided in Section (6) of this Article. The No Par Serial Preferred Stock, pari passu with the other Senior Securities, shall be entitled, but only when and as declared by the Board of Directors, out of funds legally available for the payment of dividends, in preference to the Common Stock, to dividends at the rate or rates, which may be subject to adjustment, as to each series thereof, fixed and determined pursuant to Section (5) or (7) of this Article at the time of the creation of such series, and no more, payable as the Board of Directors may from time to time determine, such dividends to be cumulative from the date of issue of such stock or as otherwise provided in Section (7) of this Article.

(3) In the event of any voluntary liquidation, dissolution or winding up of the Company, the 5% Preferred Stock, pari passu with the other Senior Securities, shall also have a preference over the Common Stock until $110 per share and five per centum (5%) per annum on the stated value thereof from and after the date on which dividends on such stock became cumulative, shall have been paid by dividends or distribution; the Serial Preferred Stock, pari passu with the other Senior Securities, shall also have a preference over the Common Stock, until there shall have been paid, by dividends or distribution on each share of the Serial Preferred Stock, the amount as to each series thereof fixed and determined by resolution of the Board of Directors or pursuant to Section (6) of this Article at the time of the creation of each such series, plus the amount, if any, by which dividends at the rate or rates fixed and determined for such stock pursuant to Section (5) or (6) of this Article, from and after the respective dates on which dividends on such stock became cumulative to the date of such distribution, exceed the dividends actually paid thereon or declared and set apart for payment thereon; and the No Par Serial Preferred Stock, pari passu with the other Senior Securities, shall also have a preference over the Common Stock, until there shall have been paid, by dividends or distribution on each share of the No Par Serial Preferred Stock, the amount as to each series thereof fixed and determined by resolution of the Board of Directors or pursuant to Section (7) of this Article at the time of the creation of each such series, plus the amount, if any, by which dividends at the rate or rates fixed and determined for such stock pursuant to Section (5) or (7) of this Article, from and after the respective dates on which dividends on such stock became cumulative to the date of such distribution, exceed the dividends actually paid thereon or declared and set apart for payment thereon.

(4) In the event of any involuntary liquidation, dissolution or winding up of the Company, which shall include any such liquidation, dissolution or winding up which may arise out of or result from the condemnation or purchase of all or a major portion of the properties of the Company by (i) the United States Government or any authority, agency or instrumentality thereof, (ii) a state of the United States or any authority, agency or instrumentality thereof, or (iii) a district, cooperative or other association or entity not organized for profit, the 5% Preferred Stock, pari passu with the other Senior Securities, shall also have a preference over the Common Stock until the full stated value thereof and five per centum (5%) per annum thereon from and after the date on which dividends on such stock became cumulative, shall have been paid by dividends or distribution; the Serial Preferred Stock, pari passu with the other Senior Securities, shall also have a preference over the Common Stock until there shall have been paid, by dividends or distribution on each share of the Serial Preferred Stock, the full stated value thereof, plus the amount, if any, by which dividends at the rate or rates fixed and determined for such stock pursuant to Section (5) or (6) of this Article, from and after the respective dates on which dividends on such stock became cumulative to the date of such distribution, exceed the dividends actually paid thereon or declared and set apart for payment thereon; and the No Par Serial Preferred Stock, pari passu with the other Senior Securities, shall also have a preference over the Common Stock until there shall have been paid, by dividends or distribution on each share of the No Par Serial Preferred Stock, the amount as to each series thereof fixed and determined by resolution of the Board of Directors as the consideration thereof or pursuant to Section (7) of this Article at the time of creation of each such series, plus the amount, if any, by which dividends at the rate or rates fixed and determined for such stock

pursuant to Section (5) or (7) of this Article, from and after the respective dates on which dividends on such stock became cumulative to the date of such distribution, exceed the dividends actually paid thereon or declared and set apart for payment thereon.

(5) The Board of Directors shall have authority by resolution to divide the Serial Preferred Stock into series designated " % Serial Preferred Stock" or the " Serial Preferred Stock," as applicable, and to divide the No Par Serial Preferred Stock into series designated "$ No Par Serial Preferred Stock" or the " No Par Serial Preferred Stock," as applicable (inserting, in each case, the annual dividend rate, as fixed and determined by the Board of Directors for each series or, if the rate of dividends is subject to adjustment, so indicating by appropriate language). All shares of Serial Preferred Stock, irrespective of series, shall constitute one and the same class of stock, and all shares of No Par Serial Preferred Stock, irrespective of series, shall constitute one and the same class of stock. Within each such class of stock, all shares shall be of equal rank and shall be identical in all respects except as to designation thereof and except that in establishing a series within either of said classes, the Board of Directors may fix and determine the relative rights and preferences of such series as to any of the following:

(a) The dividend rate or rates, which may be subject to adjustment in accordance with a method adopted by resolution of the Board of Directors at the time of the creation of such series;

(b) The date or dates from which dividends on shares of each series shall be cumulative;

(c) The dividend payment dates;

(d) The amount to be paid upon redemption, if redeemable, or in the event of voluntary liquidation, dissolution or winding up of the Company;

(e) The rights of conversion, if any, into shares of Common Stock and the terms and conditions on which shares may be so converted, if the shares of any series are issued with the privilege of conversion; and

(f) Provisions, if any, for the redemption or purchase of shares, which may be at the option of the Company or upon the happening of a specified event or events, for cash, at such time or times, price or prices, or rate or rates, and with such adjustments as shall be fixed and determined by resolution of the Board of Directors or from time to time in accordance with a method adopted by resolution of the Board of Directors at the time of the creation of such series;

and except further that in establishing a series of the No Par Serial Preferred Stock, the Board of Directors may also fix and determine the voting rights of such series.

All shares of the same series shall be identical in all respects except as to the date or dates from which dividends upon shares of such series may be cumulative. Each certificate for Serial Preferred Stock or No Par Serial Preferred Stock shall state the designation of the series in which the shares represented by such certificate are issued. Whenever an affirmative vote of the Serial Preferred Stock or the No Par Serial Preferred Stock may be required for any purpose, the shares voting shall be counted irrespective of series and not by different series.

(6) Without limitation of the foregoing authority conferred upon the Board of Directors, there follows a statement of the rights and preferences of the respective series of Serial Preferred Stock created on the effective date of the merger of PacifiCorp, a Maine

085297-86

corporation, and Utah Power & Light Company, a Utah corporation, into the Company, being the initial series and the fourth through thirteenth series, inclusive, thereof.

(a) There is hereby created an initial series of the Company's Serial Preferred Stock which shall be designated as 4.52% Serial Preferred Stock and which shall consist of 2,065 shares.

The annual dividend rate of said initial series of the Company's Serial Preferred Stock shall be four and fifty-two one-hundredths per centum (4.52%) of the stated value thereof. The date or dates from which dividends on shares of said initial series of the Company's Serial Preferred Stock shall be cumulative shall be the Accrual Date. The dividend payment dates for the payment of dividends on shares of said initial series of the Company's Serial Preferred Stock shall be the Payment Dates.

The amount to be paid upon redemption of shares of said initial series of the Company's Serial Preferred Stock shall be $103.50 per share, plus unpaid accumulated dividends, if any, to the date of redemption.

The amounts to be paid in respect of shares of said initial series of the Company's Serial Preferred Stock in the event of voluntary liquidation, dissolution or winding up of the Company shall be as follows: In the event of any voluntary liquidation, dissolution or winding up of the Company, said initial series of the Company's Serial Preferred Stock, pari passu with the other Senior Securities, shall have a preference over the Common Stock, until there shall have been paid, by dividends or distribution on each share of said initial series of the Company's Serial Preferred Stock, an amount equal to the redemption price applicable to shares of said initial series of the Company's Serial Preferred Stock, plus the amount, if any, by which

dividends at the rate of 4.52% per annum on the stated value thereof, from and after the date on which dividends on such shares became cumulative to the date of such distribution, exceed the dividends actually paid thereon or declared and set apart for payment thereon.

(The second and third series of the Serial Preferred Stock of PacifiCorp, a Maine corporation, were redeemed on September 6, 1963 and March 5, 1965, respectively.)

(h) There is hereby created a fourth series of the Company's Serial Preferred Stock which shall be designated as 7.00% Serial Preferred Stock and which shall consist of 18,060 shares.

The annual dividend rate of said fourth series of the Company's Serial Preferred Stock shall be seven per centum (7.00%) of the stated value thereof. The date from which dividends on shares of said fourth series of the Company's Serial Preferred Stock shall be cumulative shall be the Accrual Date. The dividend payment dates for the payment of dividends on shares of said fourth series of the Company's Serial Preferred Stock shall be the Payment Dates.

The amounts to be paid in respect of said fourth series of the Company's Serial Preferred Stock in the event of voluntary liquidation, dissolution or winding up of the Company shall be as follows: In the event of any voluntary liquidation, dissolution or winding up of the Company, said fourth series of the Company's Serial Preferred Stock, pari passu with the other Senior Securities, shall have a preference over the Common Stock, until there shall have been paid, by dividends or distribution on each share of said fourth series of the Company's Serial Preferred Stock, an amount equal to the full stated value thereof, plus the amount, if any, by which dividends at the rate of 7.00% per annum on the stated value thereof, from and after the

date on which dividends on such shares became cumulative to the date of such distribution, exceed the dividends actually paid thereon or declared and set apart for payment thereon.

(c) There is hereby created a fifth series of the Company's Serial Preferred Stock which shall be designated as 6.00% Serial Preferred Stock and which shall consist of 5,932 shares.

The annual dividend rate of said fifth series of the Company's Serial Preferred Stock shall be six per centum (6.00%) of the stated value thereof. The date from which dividends on shares of said fifth series of the Company's Serial Preferred Stock shall be cumulative shall be the Accrual Date. The dividend payment dates for the payment of dividends on shares of said fifth series of the Company's Serial Preferred Stock shall be the Payment Dates.

The amounts to be paid in respect of said fifth series of the Company's Serial Preferred Stock in the event of voluntary liquidation, dissolution or winding up of the Company shall be as follows: In the event of any voluntary liquidation, dissolution or winding up of the Company, said fifth series of the Company's Serial Preferred Stock, pari passu with the other Senior Securities, shall have a preference over the Common Stock until there shall have been paid, by dividends or distribution on each share of said fifth series of the Company's Serial Preferred Stock, an amount equal to the full stated value thereof, plus the amount, if any, by which dividends at the rate of 6.00% per annum on the stated value thereof, from and after the date on which dividends on such shares became cumulative to the date of such distribution, exceed the dividends actually paid thereon or declared and set apart for payment thereon.

(d) There is hereby created a sixth series of the Company's Serial Preferred Stock which shall be designated as 5.00% Serial Preferred Stock and which shall consist of 42,000 shares.

The annual dividend rate of said sixth series of the Company's Serial Preferred Stock shall be five per centum (5.00%) of the stated value thereof. The date from which dividends on shares of said sixth series of the Company's Serial Preferred Stock shall be cumulative shall be the Accrual Date. The dividend payment dates for the payment of dividends on shares of said sixth series of the Company's Serial Preferred Stock shall be the Payment Dates.

The amount to be paid upon redemption of shares of said sixth series of the Company's Serial Preferred Stock shall be $100 per share, plus unpaid accumulated dividends, if any, to the date of redemption.

The amounts to be paid in respect of shares of said sixth series of the Company's Serial Preferred Stock in the event of voluntary liquidation, dissolution or winding up of the Company shall be as follows: In the event of any voluntary liquidation, dissolution or winding up of the Company, said sixth series of the Company's Serial Preferred Stock, pari passu with the other Senior Securities, shall have a preference over the Common Stock, until there shall have been paid, by dividends or distribution on each share of said sixth series of the Company's Serial Preferred Stock, an amount equal to the full stated value thereof, plus the amount, if any, by which dividends at the rate of 5.00% per annum on the stated value thereof, from and after the date on which dividends on such shares became cumulative to the date of such distribution, exceeds the dividends actually paid thereon or declared and set apart for payment thereon.

(e) There is hereby created a seventh series of the Company's Serial Preferred Stock which shall be designated as 5.40% Serial Preferred Stock and which shall consist of 65,960 shares.

The annual dividend rate of said seventh series of the Company's Serial Preferred Stock shall be five and forty one-hundredths per centum (5.40%) of the stated value thereof. The date from which dividends on shares of said seventh series of the Company's Serial Preferred Stock shall be cumulative shall be the Accrual Date. The dividend payment dates for the payment of dividends on shares of said seventh series of the Company's Serial Preferred Stock shall be the Payment Dates.

The amount to be paid upon redemption of shares of said seventh series of the Company's Serial Preferred Stock shall be $101.00 per share, plus unpaid accumulated dividends, if any, to the date of redemption.

The amounts to be paid in respect of shares of said seventh series of the Company's Serial Preferred Stock in the event of voluntary liquidation, dissolution or winding up of the Company shall be as follows: In the event of any voluntary liquidation, dissolution or winding up of the Company, said seventh series of the Company's Serial Preferred Stock, pari passu with the other Senior Securities, shall have a preference over the Common Stock, until there shall have been paid, by dividends or distribution on each share of said seventh series of the Company's Serial Preferred Stock, an amount equal to the full stated value thereof, plus the amount, if any, by which dividends at the rate of 5.40% per annum on the stated value thereof, from and after the date on which dividends on such shares became cumulative to the

date of such distribution, exceed the dividends actually paid thereon or declared and set apart for payment thereon.

(f) There is hereby created an eighth series of the Company's Serial Preferred Stock which shall be designated as 4.72% Serial Preferred Stock and which shall consist of 69,890 shares.

The annual dividend rate of said eighth series of the Company's Serial Preferred Stock shall be four and seventy-two one-hundredths per centum (4.72%) of the stated value thereof. The date from which dividends on shares of said eighth series of the Company's Serial Preferred Stock shall be cumulative shall be the Accrual Date. The dividend payment dates for the payment of dividends on shares of said eighth series of the Company's Serial Preferred Stock shall be the Payment Dates.

The amount to be paid upon redemption of shares of said eighth series of the Company's Serial Preferred Stock shall be $103.50 per share, plus unpaid accumulated dividends, if any, to the date of redemption.

The amounts to be paid in respect of shares of said eighth series of the Company's Serial Preferred Stock in the event of voluntary liquidation, dissolution or winding up of the Company shall be as follows: In the event of any voluntary liquidation, dissolution or winding up of the Company, said eighth series of the Company's Serial Preferred Stock, pari passu with the other Senior Securities, shall have a preference over the Common Stock, until there shall have been paid, by dividends or distribution on each share of said eighth series of the Company's Serial Preferred Stock, an amount equal to the redemption price applicable to shares of said eighth series of the Company's Serial Preferred Stock, plus the amount, if any, by which

dividends at the rate of 4.72% per annum on the stated value thereof, from and after the date on which dividends on such shares became cumulative to the date of such distribution, exceed the dividends actually paid thereon or declared and set apart for payment thereon.

(g) There is hereby created a ninth series of the Company's Serial Preferred Stock which shall be designated as 4.56% Serial Preferred Stock and which shall consist of 84,592 shares.

The annual dividend rate of said ninth series of the Company's Serial Preferred Stock shall be four and fifty-six one-hundredths per centum (4.56%) of the stated value thereof. The date from which dividends on shares of said ninth series of the Company's Serial Preferred Stock shall be cumulative shall be the Accrual Date. The dividend payment dates for the payment of dividends on shares of said ninth series of the Company's Serial Preferred Stock shall be the Payment Dates.

The amount to be paid upon redemption of shares of said ninth series of the Company's Serial Preferred Stock shall be $102.34 per share, plus unpaid accumulated dividends, if any, to the date of redemption.

The amounts to be paid in respect of shares of said ninth series of the Company's Serial Preferred Stock in the event of voluntary liquidation, dissolution or winding up of the Company shall be as follows: In the event of any voluntary liquidation, dissolution or winding up of the Company, said ninth series of the Company's Serial Preferred Stock, pari passu with the other Senior Securities, shall have a preference over the Common Stock, until there shall have been paid, by dividends or distribution on each share of said ninth series of the Company's Serial Preferred Stock, an amount equal to the redemption price applicable to shares of said

ninth series of the Company's Serial Preferred Stock, plus the amount, if any, by which dividends at the rate of 4.56% per annum on the stated value thereof, from and after the date on which dividends on such shares became cumulative to the date of such distribution, exceed the dividends actually paid thereon or declared and set apart for payment thereon.

(The tenth, eleventh and twelfth series of the Serial Preferred Stock of PacifiCorp, an Oregon corporation, were redeemed on July 12, 1996. The thirteenth series of Serial Preferred Stock of PacifiCorp, an Oregon corporation, was redeemed on October 10, 1989. The fourteenth series of the Serial Preferred Stock of PacifiCorp, a Maine corporation, was redeemed on January 11, 1987.)

(7) Without limitation of the foregoing authority conferred upon the Board of Directors, there follows a statement of the rights and preferences of the respective series of No Par Serial Preferred Stock created on the effective date of the merger of PacifiCorp, a Maine corporation, and Utah Power & Light Company, a Utah corporation, into the Company, being the second series and the sixth through thirteenth series, inclusive, thereof, and the respective series of No Par Serial Preferred Stock created thereafter and prior to the date of this restatement, being the fourteenth through twentieth series, inclusive, thereof.

(The initial series of the No Par Serial Preferred Stock of PacifiCorp, a Maine corporation, was redeemed on May 15, 1987. The second series of the No Par Serial Preferred Stock of PacifiCorp, an Oregon corporation, was redeemed on July 12, 1996. The third, fourth and fifth series of No Par Serial Preferred Stock of PacifiCorp, a Maine corporation, were redeemed on May 15, 1987, October 3, 1984 and June 15, 1986, respectively. The sixth series

and seventh series of No Par Serial Preferred Stock of PacifiCorp, an Oregon corporation, were exchanged and retired on June 29, 1992).

(a) There is hereby created an eighth series of the Company's No Par Serial Preferred Stock, which shall be designated as $7.12 No Par Serial Preferred Stock. Said eighth series of No Par Serial Preferred Stock shall consist of 500,000 shares, shall have a stated value of $100 per share and shall have the relative rights and preferences as follows:

The annual dividend on said eighth series of the Company's No Par Serial Preferred Stock shall be $7.12 per share.

The date from which dividends on shares of said eighth series of the Company's No Par Serial Preferred Stock shall be cumulative shall be the Accrual Date. The dates for the payment of dividends on shares of said eighth series of the Company's No Par Serial Preferred Stock shall be the Payment Dates.

The amounts to be paid upon optional redemption of the shares of said eighth series of the Company's No Par Serial Preferred Stock shall be, for the period from the date upon which dividends on said eighth series became cumulative to and including March 31, 1992, $107.12 per share; thereafter to and including March 31, 1997, $104.75 per share; thereafter to and including March 31, 2002, $102.38 per share; and thereafter $100 per share; plus, in each case, unpaid accumulated dividends, if any, to the date of redemption; provided, however, that shares of said eighth series of the Company's No Par Serial Preferred Stock shall not be redeemable prior to April 1, 1992, directly or indirectly, as part of, or in anticipation of, any refunding operation involving the incurring of indebtedness or the issuance of shares of preferred stock ranking equally with or prior to shares of said eighth series of the Company's No Par

Serial Preferred Stock as to dividends or on liquidation, if the interest on such indebtedness or the dividends on shares of any such preferred stock would result in an effective cost to the Company (computed in accordance with generally accepted financial practice) of less than 7.18% per annum.

As a sinking fund for said eighth series of No Par Serial Preferred Stock, the Company shall redeem, out of funds legally available therefor, on March 31 of each year, beginning with March 31, 1993, not less than 15,000 shares nor more than 30,000 shares of said eighth series of the Company's No Par Serial Preferred Stock at a redemption price equal to $100 per share plus unpaid accumulated dividends, if any, to the date of redemption; the option to redeem in excess of 15,000 shares of said eighth series of No Par Serial Preferred Stock on any March 31 shall not be cumulative; shares of said eighth series of No Par Serial Preferred Stock acquired or redeemed by the Company otherwise than through operation of the sinking fund may, at the option of the Company, be credited against subsequent minimum sinking fund requirements; if the Company shall be prevented, because of restriction or for any other reason, from acquiring or redeeming on any March 31 the number of shares of said eighth series of No Par Serial Preferred Stock that in the absence of such restriction or other reason it would be required to acquire or redeem on such date, the deficit shall be made good on the first succeeding March 31 on which the Company shall not be prevented by such restriction or other reason from acquiring or redeeming shares of said eighth series of No Par Serial Preferred Stock. If the Company shall be in arrears in the redemption of shares of said eighth series of No Par Serial Preferred Stock, no dividends (other than dividends payable in Common Stock) shall be paid or any other distribution of assets made, by purchase of shares or otherwise, on

Common Stock or on any other stock of the Company over which the No Par Serial Preferred Stock has preference as to the payment of dividends or as to assets.

In the event of any involuntary liquidation, dissolution or winding up of the Company, said eighth series of the Company's No Par Serial Preferred Stock, pari passu with the other Senior Securities, shall have a preference over the Common Stock until there shall have been paid, by dividends or distribution on each share of said eighth series of the Company's No Par Serial Preferred Stock, an amount equal to $100, plus the amount, if any, by which dividends of $7.12 per annum, from and after the date on which dividends on such shares became cumulative to the date of such distribution, exceed the dividends actually paid thereon or declared and set apart for payment thereon.

In the event of any voluntary liquidation, dissolution or winding up of the Company, said eighth series of the Company's No Par Serial Preferred Stock, pari passu with the other Senior Securities, shall have a preference over the Common Stock, until there shall have been paid, by dividends or distribution on each share of said eighth series of the Company's No Par Serial Preferred Stock, an amount equal to the then current redemption price applicable to shares of said eighth series of the Company's No Par Serial Preferred Stock, plus the amount, if any, by which dividends of $7.12 per annum, from and after the date on which dividends on such shares became cumulative to the date of such distribution, exceed the dividends actually paid thereon or declared and set apart for payment thereon.

Every holder of record of said eighth series of the Company's No Par Serial Preferred Stock, or his legal representative, at the record date for the determination of persons

entitled to vote at a meeting of shareholders, shall be entitled to one vote for each share of such stock standing in his name on the books of the Company.

(b) There is hereby created a ninth series of the Company's No Par Serial Preferred Stock which shall be designated as $1.28 No Par Serial Preferred Stock. Said ninth series of No Par Serial Preferred Stock shall consist of 400,000 shares, shall have a stated value of $25 per share and shall have the relative rights and preferences as follows:

The annual dividend on said ninth series of the Company's No Par Serial Preferred Stock shall be $1.28 per share.

The date from which dividends on shares of said ninth series of the Company's No Par Serial Preferred Stock shall be cumulative shall be the day immediately following the last period for which dividends on the Cumulative Preferred Stock, $25 par value, of Utah Power & Light Company, a Utah corporation, have been declared (such date being hereinafter referred to as the "UP&L Accrual Date"). The dates for the payment of dividends on shares of said ninth series of the Company's No Par Serial Preferred Stock shall be the Payment Dates.

The amount to be paid upon redemption of the shares of said ninth series of the Company's No Par Serial Preferred Stock shall be $26.35 per share, plus unpaid accumulated dividends, if any, to the date of redemption.

In the event of any involuntary liquidation, dissolution or winding up of the Company, said ninth series of the Company's No Par Serial Preferred Stock, pari passu with the other Senior Securities, shall have a preference over the Common Stock until there shall have been paid, by dividends or distribution on each share of said ninth series of the Company's No Par Serial Preferred Stock, an amount equal to $25, plus the amount, if any, by which dividends

of $1.28 per annum, from and after the date on which dividends on such shares became cumulative to the date of such distribution, exceed the dividends actually paid thereon or declared and set apart for payment thereon.

In the event of any voluntary liquidation, dissolution or winding up of the Company, said ninth series of the Company's No Par Serial Preferred Stock, pari passu with the other Senior Securities, shall have a preference over the Common Stock, until there shall have been paid, by dividends or distribution on each share of said ninth series of the Company's No Par Serial Preferred Stock, an amount equal to the redemption price applicable to shares of said ninth series of the Company's No Par Serial Preferred Stock, plus the amount, if any, by which dividends of $1.28 per annum, from and after the date on which dividends on such shares became cumulative to the date of such distribution, exceed the dividends actually paid thereon or declared and set apart for payment thereon.

The holders of shares of said ninth series of the Company's No Par Serial Preferred Stock shall have no voting rights except as provided in these Restated Articles of Incorporation and except as otherwise required by law. Whenever holders of shares of said ninth series of the Company's No Par Serial Preferred Stock shall be entitled to vote, every holder, or his legal representative, at the record date for the determination of persons entitled to vote at a meeting of shareholders, shall be entitled to one-quarter (1/4) of a vote for each share of such stock standing in his name on the books of the Company.

The shares of said ninth series of the Company's No Par Serial Preferred Stock, by their terms, shall not be entitled to a sinking fund or purchase fund and shall not be convertible into or exchangeable for shares of any other class or series.

(c) There is hereby created a tenth series of the Company's No Par Serial Preferred Stock which shall be designated as $1.18 No Par Serial Preferred Stock. Said tenth series of No Par Serial Preferred Stock shall consist of 480,000 shares, shall have a stated value of $25 per share and shall have the relative rights and preferences as follows:

The annual dividend on said tenth series of the Company's No Par Serial Preferred Stock shall be $1.18 per share.

The date from which dividends on shares of said tenth series of the Company's No Par Serial Preferred Stock shall be cumulative shall be the UP&L Accrual Date. The dates for the payment of dividends on shares of said tenth series of the Company's No Par Serial Preferred Stock shall be the Payment Dates.

The amount to be paid upon redemption of the shares of said tenth series of the Company's No Par Serial Preferred Stock shall be $26.15 per share, plus unpaid accumulated dividends, if any, to the date of redemption.

In the event of any involuntary liquidation, dissolution or winding up of the Company, said tenth series of the Company's No Par Serial Preferred Stock, pari passu with the other Senior Securities, shall have a preference over the Common Stock until there shall have been paid, by dividends or distribution on each share of said tenth series of the Company's No Par Serial Preferred Stock, an amount equal to $25, plus the amount, if any, by which dividends of $1.18 per annum, from and after the date on which dividends on such shares became cumulative to the date of such distribution, exceed the dividends actually paid thereon or declared and set apart for payment thereon.

In the event of any voluntary liquidation, dissolution or winding up of the Company, said tenth series of the Company's No Par Serial Preferred Stock, pari passu with the other Senior Securities, shall have a preference over the Common Stock, until there shall have been paid, by dividends or distribution on each share of said tenth series of the Company's No Par Serial Preferred Stock, an amount equal to the redemption price applicable to shares of said tenth series of the Company's No Par Serial Preferred Stock, plus the amount, if any, by which dividends of $1.18 per annum, from and after the date on which dividends on such shares became cumulative to the date of such distribution, exceed the dividends actually paid thereon or declared and set apart for payment thereon.

The holders of shares of said tenth series of the Company's No Par Serial Preferred Stock shall have no voting rights except as provided in these Restated Articles of Incorporation and except as otherwise required by law. Whenever holders of shares of said tenth series of the Company's No Par Serial Preferred Stock shall be entitled to vote, every holder, or his legal representative, at the record date for the determination of persons entitled to vote at a meeting of shareholders, shall be entitled to one-quarter (1/4) of a vote for each share of such stock standing in his name on the books of the Company.

The shares of said tenth series of the Company's No Par Serial Preferred Stock, by their terms, shall not be entitled to a sinking fund or purchase fund and shall not be convertible into or exchangeable for shares of any other class or series.

(d) There is hereby created an eleventh series of the Company's No Par Serial Preferred Stock which shall be designated as $1.16 No Par Serial Preferred Stock. Said eleventh

series of No Par Serial Preferred Stock shall consist of 200,000 shares, shall have a stated value of $25 per share and shall have the relative rights and preferences as follows:

The annual dividend on said eleventh series of the Company's No Par Serial Preferred Stock shall be $1.16 per share.

The date from which dividends on shares of said eleventh series of the Company's No Par Serial Preferred Stock shall be cumulative shall be the UP&L Accrual Date. The dates for the payment of dividends on shares of said eleventh series of the Company's No Par Serial Preferred Stock shall be the Payment Dates.

The amount to be paid upon redemption of the shares of said eleventh series of the Company's No Par Serial Preferred Stock shall be $26.11 per share, plus unpaid accumulated dividends, if any, to the date of redemption.

In the event of any involuntary liquidation, dissolution or winding up of the Company, said eleventh series of the Company's No Par Serial Preferred Stock, pari passu with the other Senior Securities, shall have a preference over the Common Stock until there shall have been paid, by dividends or distribution on each share of said eleventh series of the Company's No Par Serial Preferred Stock, an amount equal to $25, plus the amount, if any, by which dividends of $1.16 per annum from and after the date on which dividends on such shares became cumulative to the date of such distribution, exceed the dividends actually paid thereon or declared and set apart for payment thereon.

In the event of any voluntary liquidation, dissolution or winding up of the Company, said eleventh series of the Company's No Par Serial Preferred Stock, pari passu with the other Senior Securities, shall have a preference over the Common Stock, until there shall

have been paid, by dividends or distribution on each share of said eleventh series of the Company's No Par Serial Preferred Stock, an amount equal to the redemption price applicable to shares of said eleventh series of the Company's No Par Serial Preferred Stock, plus the amount, if any, by which dividends of $1.16 per annum, from and after the date on which dividends on such shares became cumulative to the date of such distribution, exceed the dividends actually paid thereon or declared and set apart for payment thereon.

The holders of shares of said eleventh series of the Company's No Par Serial Preferred Stock shall have no voting rights except as provided in these Restated Articles of Incorporation and except as otherwise required by law. Whenever holders of shares of said eleventh series of the Company's No Par Serial Preferred Stock shall be entitled to vote, every holder, or his legal representative, at the record date for the determination of persons entitled to vote at a meeting of shareholders, shall be entitled to one-quarter (1/4) of a vote for each share of such stock standing in his name on the books of the Company.

The shares of said eleventh series of the Company's No Par Serial Preferred Stock, by their terms, shall not be entitled to a sinking fund or purchase fund and shall not be convertible into or exchangeable for shares of any other class or series.

(The twelfth, thirteenth, fourteenth and fifteenth series of the No Par Serial Preferred Stock of PacifiCorp, an Oregon corporation, were redeemed on July 12, 1996, July 12, 1996, July 29, 1996 and December 29, 1992, respectively).

(e) There is hereby created a sixteenth series of the Company's No Par Serial Preferred Stock which shall be designated as $7.70 No Par Serial Preferred Stock. The amount of the consideration received by the Company fixed as a preference over the Common Stock in

the assets of the Company upon involuntary liquidation and that constitutes the stated value of said sixteenth series of the Company's No Par Serial Preferred Stock is $100 per share. Said sixteenth series of the Company's No Par Serial Preferred Stock shall consist of 1,000,000 shares and shall have the relative rights and preferences as follows:

The annual dividend on said sixteenth series of the Company's No Par Serial Preferred Stock shall be $7.70 per share.

The date from which dividends on shares of said sixteenth series of the Company's No Par Serial Preferred Stock shall be cumulative shall be the date of issue of such shares. The dates for the payment of dividends on shares of said sixteenth series of the Company's No Par Serial Preferred Stock shall be the Payment Dates.

The shares of said sixteenth series of the Company's No Par Serial Preferred Stock shall not be subject to redemption at the option of the Company and shall not be subject to any sinking fund.

On August 15, 2001, the Company shall redeem all shares of said sixteenth series of No Par Serial Preferred Stock then outstanding, out of funds legally available therefor, at a redemption price equal to $100 per share plus unpaid accumulated dividends, if any, to the date of redemption.

In the event of any voluntary liquidation, dissolution or winding up of the Company, said sixteenth series of the Company's No Par Serial Preferred Stock, pari passu with the other Senior Securities, shall have a preference over the Common Stock, until there shall have been paid, by dividends or distribution on each share of said sixteenth series of the Company's No Par Serial Preferred Stock, an amount equal to $100, plus the amount, if any,

by which dividends of $7.70 per annum, from and after the date on which dividends on such shares became cumulative to the date of such distribution, exceed the dividends actually paid thereon or declared and set apart for payment thereon.

Every holder of record of shares of said sixteenth series of the Company's No Par Serial Preferred Stock, or his legal representative, at the record date for the determination of persons entitled to vote at a meeting of shareholders, shall be entitled to one vote for each share of such stock standing in his name on the books of the Company.

(f) There is hereby created a seventeenth series of the Company's No Par Serial Preferred Stock, which shall be designated as $1.98 No Par Serial Preferred Stock, Series 1992. Said seventeenth series of No Par Serial Preferred Stock shall consist of 5,000,000 shares. The amount of the consideration received by the Company fixed as a preference over the Common Stock in the assets of the Company upon involuntary liquidation, dissolution or winding up of the Company and that constitutes the stated value of said seventeenth series of the Company's No Par Serial Preferred Stock is $25 per share.

The annual dividend on said seventeenth series of the Company's No Par Serial Preferred Stock shall be $1.98 per share.

The date from which dividends on shares of said seventeenth series of the Company's No Par Serial Preferred Stock shall be cumulative shall be the date of issue of such shares. The dates for the payment of dividends on shares of said seventeenth series of the Company's No Par Serial Preferred Stock shall be the Payment Dates.

The shares of said seventeenth series of the Company's No Par Serial Preferred Stock shall not be redeemable by the Company on or before May 31, 1997. After May 31,

1997, the outstanding shares of said seventeenth series of the Company's No Par Serial Preferred Stock shall be redeemable at the option of the Company, in whole or in part, out of funds legally available therefor, at a redemption price equal to $25 per share plus unpaid accumulated dividends, if any, to the date of redemption. The shares of said seventeenth series of the Company's No Par Serial Preferred Stock shall not be subject to any sinking fund.

In the event of any voluntary liquidation, dissolution or winding up of the Company, said seventeenth series of the Company's No Par Serial Preferred Stock, pari passu with the other Senior Securities, shall have a preference over the Common Stock, until there shall have been paid, by dividends or distribution on each share of said seventeenth series of the Company's No Par Serial Preferred Stock, an amount equal to $25, plus the amount, if any, by which dividends of $1.98 per annum, from and after the date on which dividends on such shares became cumulative to the date of such distribution, exceed the dividends actually paid thereon or declared and set apart for payment thereon.

Every holder of record of shares of said seventeenth series of the Company's No Par Serial Preferred Stock, or his legal representative, at the record date for the determination of persons entitled to vote at a meeting of shareholders, shall be entitled to one-quarter vote for each share of such stock standing in his name on the books of the Company.

(g) There is hereby created an eighteenth series of the Company's No Par Serial Preferred Stock, which shall be designated as $7.48 No Par Serial Preferred Stock. Said eighteenth series of No Par Serial Preferred Stock shall consist of 750,000 shares. The amount of the consideration received by the Company fixed as a preference over the Common Stock in the assets of the Company upon involuntary liquidation, dissolution or winding up of the

Company and that constitutes the stated value of said seventeenth series of the Company's No Par Serial Preferred Stock is $100 per share.

The annual dividend on said eighteenth series of the Company's No Par Serial Preferred Stock shall be $7.48 per share.

The date from which dividends on shares of said eighteenth series of the Company's No Par Serial Preferred Stock shall be cumulative shall be the date of issue of such shares. The dates for the payment of dividends on shares of said eighteenth series of the Company's No Par Serial Preferred Stock shall be the Payment Dates.

The shares of said eighteenth series of the Company's No Par Serial Preferred Stock shall not be subject to redemption at the option of the Company, other than as described below.

On June 15, 2007, the Company shall redeem all shares of said eighteenth series of No Par Serial Preferred Stock then outstanding, out of funds legally available therefor, at a redemption price equal to $100 per share plus unpaid accumulated dividends, if any, to the date of redemption. As a sinking fund for said eighteenth series of No Par Serial Preferred Stock, the Company shall redeem, out of funds legally available therefor, on June 15 of each year, beginning with June 15, 2002 and ending with June 15, 2006, not less than 37,500 shares nor more than 75,000 shares of said eighteenth series of No Par Serial Preferred Stock, in each case at a redemption price equal to $100 per share plus unpaid accumulated dividends, if any, to the date of redemption; the option to redeem in excess of 37,500 shares of said eighteenth series of No Par Serial Preferred Stock on any June 15 from 2002 through 2006 shall not be cumulative; shares of said eighteenth series of No Par Serial Preferred Stock acquired by the Company otherwise than through operation of the sinking fund may, at the option of the Company, be

credited against subsequent minimum sinking fund requirements; if the Company shall be prevented, because of restriction or for any other reason, from acquiring or redeeming on any June 15 from 2002 through 2006 the number of shares of said eighteenth series of No Par Serial Preferred Stock that in the absence of such restriction or other reason it would be required to acquire or redeem on such date, the deficit shall be made good on the first succeeding June 15 on which the Company shall not be prevented by such restriction or other reason from acquiring or redeeming shares of said eighteenth series of No Par Serial Preferred Stock. If the Company shall be in arrears in the redemption of shares of said eighteenth series of No Par Serial Preferred Stock, no dividends (other than dividends payable in Common Stock) shall be paid or any other distribution of assets made, by purchase of shares or otherwise, on Common Stock or on any other stock of the Company over which the No Par Serial Preferred Stock has preference as to the payment of dividends or as to assets.

In the event of any voluntary liquidation, dissolution or winding up of the Company, said eighteenth series of the Company's No Par Serial Preferred Stock, pari passu with the other Senior Securities, shall have a preference over the Common Stock, until there shall have been paid, by dividends or distribution on each share of said eighteenth series of the Company's No Par Serial Preferred Stock, an amount equal to $100, plus the amount, if any, by which dividends of $7.48 per annum, from and after the date on which dividends on such shares became cumulative to the date of such distribution, exceed the dividends actually paid thereon or declared and set apart for payment thereon.

Every holder of record of shares of said eighteenth series of the Company's No Par Serial Preferred Stock, or his legal representative, at the record date for the determination

of persons entitled to vote at a meeting of shareholders, shall be entitled to one vote for each share of such stock standing in his name on the books of the Company.

(The nineteenth and twentieth series of the No Par Serial Preferred Stock of PacifiCorp, an Oregon corporation, were redeemed on August 9, 1996 and January 25, 1993, respectively).

(8) Subject to the rights of the holders of the Senior Securities, and subordinate thereto (and subject and subordinate to the rights of any class of stock hereafter authorized), the Common Stock alone shall receive all dividends and shares in liquidation, dissolution, winding up or distribution other than those to be paid on shares of Senior Securities as provided in Sections (2) through (7) of this Article.

(9) The Company, by a majority vote of its Board of Directors, may at any time redeem all of said 5% Preferred Stock or may from time to time redeem any part thereof, by paying in cash a redemption price of $110 per share, plus unpaid accumulated dividends, if any, to the date of redemption; may at any time redeem all or any part of any one or more series of Serial Preferred Stock, other than the 7.00% Serial Preferred Stock and the 6.00% Serial Preferred Stock created at the time of merger of PacifiCorp, a Maine corporation, and Utah Power & Light Company, a Utah corporation, into the Company, by paying in cash a redemption price fixed and determined by resolution of the Board of Directors or pursuant to Section (6) of this Article at the time of creation of each such series, plus unpaid accumulated dividends, if any, to the date of redemption; and may at any time redeem all or any part of any one or more series of No Par Serial Preferred Stock by paying in cash a redemption price fixed and determined by resolution of the Board of Directors or pursuant to Section (7) of this Article at the time of creation of each such series plus unpaid accumulated dividends, if any, to the date of redemption. Notice of the intention of the Company to redeem all or any part of the 5%

Preferred Stock, Serial Preferred Stock or No Par Serial Preferred Stock shall be mailed not less than thirty (30) days nor more than sixty (60) days before the date of redemption to each holder of record of 5% Preferred Stock, Serial Preferred Stock or No Par Serial Preferred Stock to be redeemed, at his post office address as shown by the Company's records or, in lieu of such mailing, not less than thirty (30) days nor more than sixty (60) days' notice of such redemption may be published in such manner as may be prescribed by resolution of the Board of Directors of the Company; and, in the event of such publication, no failure to mail such notice nor any defect therein or in the mailing thereof shall affect the validity of the proceedings for the redemption of any shares of 5% Preferred Stock, Serial Preferred Stock or No Par Serial Preferred Stock so to be redeemed. Contemporaneously with the mailing or the publication of such notice as aforesaid or at any time thereafter prior to the date of redemption, the Company may deposit the aggregate redemption price (or the portion thereof not already paid in the redemption of such 5% Preferred Stock, Serial Preferred Stock or No Par Serial Preferred Stock) with any bank or trust company in the City of New York, New York, or in the City of Portland, Oregon, named in such notice, payable to the order of the record holders of the 5% Preferred Stock, Serial Preferred Stock or No Par Serial Preferred Stock so to be redeemed, on the endorsement and surrender of their certificates, and thereupon said holders shall cease to be shareholders with respect to such shares; and from and after the making of such deposit such holders shall have no interest in or claim against the Company with respect to said shares, but shall be entitled only to receive such moneys from said bank or trust company, with interest, if any, allowed by such bank or trust company, on such moneys deposited as in this Section provided, on endorsement and surrender of their certificates, as aforesaid. Any moneys so deposited, plus interest thereon, if any, and remaining unclaimed at the end of six years from

the date fixed for redemption, if thereafter requested by resolution of the Board of Directors, shall be repaid to the Company, and in the event of such repayment to the Company such holders of record of the shares so redeemed as shall not have made claim against such moneys prior to such repayment to the Company, shall be deemed to be unsecured creditors of the Company for an amount, without interest, equivalent to the amount deposited, plus interest thereon, if any, allowed by such bank or trust company, as above stated, for the redemption of such shares and so paid to the Company. If less than all of the shares of the 5% Preferred Stock or of any series of Serial Preferred Stock or No Par Serial Preferred Stock are to be redeemed, the shares to be redeemed shall be selected by lot, in such manner as the Board of Directors of the Company shall determine, by an independent bank or trust company selected for that purpose by the Board of Directors of the Company. Nothing in this Section contained shall limit any right of the Company to purchase or otherwise acquire any shares of 5% Preferred Stock, Serial Preferred Stock or No Par Serial Preferred Stock.

(10) Except as hereinafter otherwise provided, every holder of record of 5% Preferred Stock, of Serial Preferred Stock or of Common Stock, or his legal representative, at the record date for the determination of persons entitled to vote at a meeting of shareholders, shall be entitled at such meeting to one vote for each share of such stock standing in his name on the books of the Company, and every holder of record of No Par Serial Preferred Stock, or his legal representative, at the record date for the determination of persons entitled to vote at a meeting of shareholders, shall be entitled to such voting rights as shall be fixed and determined for the series of which his share or shares are a part by Section (7) of this Article or the resolution establishing such series.

(11) If and when dividends payable on the Senior Securities shall be in default in an amount equal to four full quarterly payments or more per share, and thereafter until all dividends on the Senior Securities in default shall have been paid, the holders of the Senior Securities, voting separately from the Common Stock as one class, shall be entitled to elect the smallest number of directors necessary to constitute a majority of the full Board of Directors, and the holders of the Common Stock, voting separately from the Senior Securities as a class, shall be entitled to elect the remaining directors of the Company, anything herein and in the Bylaws of the Company to the contrary notwithstanding. The terms of office, as directors, of all persons who may be directors of the Company at the time shall terminate upon the election of a majority of the Board of Directors by the holders of the Senior Securities, except that if the holders of the Common Stock shall not have elected the remaining directors of the Company, then, and only in that event, the directors of the Company in office just prior to the election of a majority of the Board of Directors by the holders of the Senior Securities shall elect the remaining directors of the Company. Thereafter, while such default continues and the majority of the Board is being elected by the holders of Senior Securities, the remaining directors, whether elected by directors, as aforesaid, or whether originally or later elected by holders of the Common Stock, shall continue in office until their successors are elected by holders of the Common Stock and shall qualify.

(12) If and when all dividends then in default on the Senior Securities then outstanding shall be paid (such dividends to be declared and paid out of any funds legally available therefor as soon as reasonably practicable), the holders of the Senior Securities shall be divested of any special right with respect to the election of directors, and the voting power of the holders of Senior Securities and the holders of the Common Stock shall revert to the status existing before

the first dividend payment date on which dividends on the Senior Securities were not paid in full, but always subject to the same provisions for vesting such special rights in the holders of the Senior Securities in the event of further like default or defaults in the payment of dividends thereon. Upon termination of any such special voting right upon payment of all accumulated and defaulted dividends on the Senior Securities, the terms of office of all persons who may have been elected directors of the Company by vote of the holders of Senior Securities as one class, pursuant to such special voting right, shall forthwith terminate, and the resulting vacancies shall be filled by the vote of a majority of the remaining directors, and directors so elected shall hold office until their successors are elected and shall qualify.

(13) In the case of any vacancy in the office of a director occurring among the directors elected by the holders of the Senior Securities, voting separately from the Common Stock as one class, the remaining directors elected by the holders of the Senior Securities, by affirmative vote of a majority thereof, or the remaining director so elected if there be but one, may elect a successor or successors to hold office for the unexpired term or terms of the director or directors whose place or places shall be vacant. Likewise, in case of any vacancy in the office of a director occurring among the directors not elected by the holders of the Senior Securities, the remaining directors not elected by the holders of the Senior Securities by affirmative vote of a majority thereof, or the remaining director so elected if there be but one, may elect a successor or successors to hold office for the unexpired term or terms of the director or directors whose place or places shall be vacant.

(14) Whenever the right shall have accrued to the holders of the Senior Securities to elect directors, voting separately from the Common Stock as one class, it shall be the duty of the President, a Vice-President or the Secretary of the Company forthwith to cause notice to be

given to the shareholders entitled to vote at a meeting to be held at such time as the Company's officers may fix, not less than ten (10) nor more than sixty (60) days after the accrual of such right, for the purpose of electing directors. At all meetings of shareholders held for the purpose of electing directors during such time as the holders of the Senior Securities shall have the special right, voting separately from the Common Stock as one class, to elect directors, the presence in person or by proxy of the holders of a majority of the outstanding Common Stock shall be required to constitute a quorum of such class for the election of directors, and the presence in person or by proxy of the holders of a majority in voting rights, of the outstanding Senior Securities shall be required to constitute a quorum of such class for the election of directors; provided, however, that the absence of a quorum of the holders of stock of either such class shall not prevent the election at any such meeting or adjournment thereof of directors by the other class, if the necessary quorum of the holders of stock of such other class is present in person or by proxy at such meeting or any adjournment thereof; and provided further, that in the event a quorum of the holders of the Common Stock is present but a quorum of the holders of the Senior Securities is not present, then the election of the directors elected by the holders of the Common Stock shall not become effective and the directors so elected by the holders of Common Stock shall not assume their offices and duties until the holders of the Senior Securities, with a quorum present, shall have elected the directors they shall be entitled to elect; and provided further, however, that in the absence of a quorum of holders of stock of either class, a majority of the holders of the stock of such class who are present in person or by proxy shall have power to adjourn the election of the directors to be elected by such class from time to time without notice other than announcement at the meeting, until the requisite quorum of holders of such class shall be made present in person or by proxy, but such adjournment shall

not be to a date beyond the date for the mailing of the notice of the next annual meeting of the Company or special meeting in lieu thereof.

(15) So long as any shares of the 5% Preferred Stock are outstanding, the Company shall not, without the consent (given by a vote at a meeting called for that purpose) of the holders of at least two-thirds of the total number of votes entitled to be cast by the shares of the 5% Preferred Stock then outstanding:

(a) create or authorize any new stock ranking prior to the 5% Preferred Stock as to dividends, in liquidation, dissolution, winding up or distribution, or create or authorize any security convertible into shares of any such stock; or

(b) amend, alter, change or repeal any of the express terms of the 5% Preferred Stock then outstanding in a manner substantially prejudicial to the holders thereof.

(16) So long as any shares of Serial Preferred Stock are outstanding, the Company shall not, without the consent (given by a vote at a meeting called for that purpose) of the holders of at least two-thirds of the total number of votes entitled to be cast by the shares of Serial Preferred Stock then outstanding:

(a) create or authorize any new stock ranking prior to such Serial Preferred Stock as to dividends, in liquidation, dissolution, winding up or distribution, or create or authorize any security convertible into shares of any such stock; or

(b) amend, alter, change or repeal any of the express terms of such Serial Preferred Stock then outstanding in a manner substantially prejudicial to the holders thereof.

(17) So long as any shares of No Par Serial Preferred Stock are outstanding, the Company shall not, without consent (given by a vote at a meeting called for that purpose) of the

holders of at least two-thirds of the total number of votes entitled to be cast by the shares of No Par Serial Preferred Stock then outstanding:

(a) create or authorize any new stock ranking prior to such No Par Serial Preferred Stock as to dividends, in liquidation, dissolution, winding up or distribution, or create or authorize any security convertible into shares of any such stock; or

(b) amend, alter, change or repeal any of the express terms of such No Par Serial Preferred Stock then outstanding in a manner substantially prejudicial to the holders thereof.

(18) So long as any shares of the Senior Securities are outstanding, the Company shall not, without the consent (given by vote at a meeting called for that purpose) of the holders of a majority of the total voting power of the Senior Securities then outstanding, voting separately from the Common Stock, as one class:

(a) merge or consolidate with or into any other corporation or corporations; provided, that the provisions of this subparagraph (a) shall not apply to a purchase or other acquisition by the Company of franchises or assets of another corporation in any manner which does not involve a merger or consolidation; or

(b) issue any unsecured notes, debentures or other securities representing unsecured indebtedness, or assume any such unsecured indebtedness, for purposes other than (i) the refunding of outstanding unsecured indebtedness theretofore issued or assumed by the Company, or (ii) the reacquisition, redemption or other retirement of all outstanding shares of the Senior Securities, if immediately after such issue or assumption the total principal amount of all unsecured notes, debentures or other securities representing unsecured indebtedness issued or assumed by the Company, including unsecured indebtedness then to be issued or assumed,

would exceed thirty per centum (30%) of the aggregate of (1) the total principal amount of all bonds or other securities representing secured indebtedness issued or assumed by the Company and then to be outstanding, and (2) the capital and surplus of the Company as then to be stated on the books of account of the Company; or

(c) issue, sell or otherwise dispose of any shares of the Senior Securities or of any other class of stock ranking prior to, or on a parity with, the Senior Securities as to dividends or distributions, unless the net income of the Company determined, after provision for depreciation and all taxes and in accordance with generally accepted accounting practices, to be available for the payment of dividends for a period of twelve (12) consecutive calendar months within the fifteen (15) calendar months immediately preceding the issuance, sale or disposition of such stock, is at least equal to twice the annual dividend requirements on all outstanding shares of the Senior Securities and all other classes of stock ranking prior to, or on a parity with, the Senior Securities as to dividends or distributions, including the shares proposed to be issued, computed, in the case of any such shares on which the dividend rate is subject to adjustment, at the dividend rate then in effect or, if such shares are the shares proposed to be issued, at the dividend rate initially established for such shares, and unless the gross income of the Company for such period, determined in accordance with generally accepted accounting practices (but in any event after deducting the amount for said period charged by the Company on its books to depreciation expense and all taxes) to be available for the payment of interest, shall have been at least one-and one-half times the sum of (i) the annual interest charges on all interest bearing indebtedness of the Company and (ii) the annual dividend requirements on all outstanding shares of the Senior Securities and all other classes of stock ranking prior to, or on a parity with, the Senior Securities as to dividends or distributions, including the shares proposed

to be issued, computed, in the case of any such indebtedness or shares on which the interest or dividend rate is subject to adjustment, at the interest or dividend rate then in effect or, if such shares are the shares proposed to be issued, at the dividend rate initially established for such shares; provided, that there shall be excluded from the foregoing computation interest charges on all indebtedness and dividends on all shares of stock which are to be retired in connection with the issue of such additional shares of Senior Securities or other class of stock ranking prior to, or on a parity with, the Senior Securities as to dividends or distributions; and provided further, that in any case where such additional shares of Senior Securities or other class of stock ranking prior to, or on a parity with, the Senior Securities as to dividends or distributions, are to be issued in connection with the acquisition of new property, the net earnings of the property to be so acquired may be included on a pro forma basis in the foregoing computation, computed on the same basis as the net earnings of the Company; or

(d) issue, sell or otherwise dispose of any shares of the Senior Securities, or of any other class of stock ranking prior to, or on a parity with, the Senior Securities as to dividends or distributions, unless the aggregate of the capital of the Company applicable to the Common Stock and the surplus of the Company shall be not less than the aggregate amount payable on the involuntary dissolution, liquidation or winding up of the Company, in respect of all shares of the Senior Securities and all shares of stock, if any, ranking prior thereto, or on a parity therewith, as to dividends or distributions, which will be outstanding after the issue of the shares proposed to be issued; provided, that if, for the purposes of meeting the requirements of this subparagraph (d), it becomes necessary to take into consideration any earned surplus of the Company, the Company shall not thereafter pay any dividends on shares of the Common Stock which would result in reducing the Company's Common Stock equity to an amount less

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than the aggregate amount payable, on dissolution, winding up or involuntary liquidation of the Company, on all shares of the Senior Securities and of any stock ranking prior to, or on a parity with, the Senior Securities as to dividends or other distributions, at the time outstanding.

(19) The Company from time to time may, subject to the limitations or requirements provided above in this Article III, purchase any of its stock outstanding at such price as may be fixed by its Board of Directors or Executive Committee and accepted by the holders of the stock purchased, and may resell any stock so purchased at such price as may be fixed by its Board of Directors or Executive Committee, but in the case the stock so purchased is subject to redemption, the price paid therefor shall not exceed the price at which it is redeemable.

(20) The Company from time to time may, subject to the limitations or requirements provided above in this Article III, issue and sell Common Stock or Preferred Stock of any class then authorized but unissued, bonds, notes or other evidences of indebtedness convertible or not into Common Stock or stock of any other class then authorized but unissued.

(21) No holder of any stock or other securities of the Company now or hereafter authorized shall have any preemptive or other right to subscribe for, purchase or receive any unissued shares, treasury shares, or other shares of any class, whether now or hereafter authorized, or any notes, bonds, debentures, or other securities convertible into, or carrying options or warrants to purchase, shares of any class. The Company may issue and dispose of any of its authorized shares for such consideration as may be fixed by the Board of Directors subject to the laws then applicable.

ARTICLE IV

Meetings of shareholders of the Company may be held at such place, either within or outside the State of Oregon, as shall be designated from time to time by the Board of Directors.

ARTICLE V

(1) The number of directors of the Company shall be not less than nine (9) nor more than twenty-one (21), and within such limits the exact number shall be fixed and increased or decreased from time to time by resolution of the Board of Directors. The directors shall be divided into three classes, as nearly equal in number as possible, with the term of office of the first class ("Class I") to expire at the 1991 annual meeting of shareholders, the term of office of the second class ("Class II") to expire at the 1989 annual meeting of shareholders and the term of office of the third class ("Class III") to expire at the 1990 annual meeting of shareholders. At each annual meeting of shareholders following such initial classification and election, directors elected to succeed those directors whose terms expire shall be elected to serve three-year terms and until their successors are elected and qualified, so that the term of one class of directors will expire each year. When the number of directors is changed within the limits provided herein, any newly created directorships, or any decrease in directorships, shall be so apportioned among the classes as to make all classes as nearly equal as possible, provided that no decrease in the number of directors constituting the Board of Directors shall shorten the term of any incumbent director.

(2) All or any number of the directors of the Company may be removed without cause only at a meeting of shareholders called expressly for that purpose, by the vote of 80 percent of the votes then entitled to be cast for the election of directors. The shareholders may remove

all or any number of directors for cause at a meeting of shareholders called expressly for that purpose by the vote of two-thirds of the votes then entitled to be cast for the election of directors. At any meeting of shareholders at which one or more directors are removed, a majority of the votes then entitled to be cast for the election of directors may fill any vacancy created by such removal. If any vacancy created by removal of a director is not filled by the shareholders at the meeting at which the removal is effected, such vacancy may be filled by a majority vote of the remaining directors.

(3) The provisions of this Article V may not be amended, altered, changed or repealed in any respect unless such action is approved by the affirmative vote of not less than 80 percent of the votes then entitled to be cast for the election of directors.

ARTICLE VI

The Company's Bylaws may be amended or repealed or new bylaws may be made: (a) by the affirmative vote of the holders of record of a majority of the outstanding capital stock of the Company entitled to vote thereon, irrespective of class, given at any annual or special meeting of the shareholders; provided that notice of the proposed amendment, repeal or new bylaw or bylaws be included in the notice of such meeting or waiver thereof; or (b) by the affirmative vote of a majority of the entire Board of Directors given at any regular meeting of the Board, or any special meeting thereof; provided that notice of the proposed amendment, repeal or new bylaw or bylaws be included in the notice of such meeting or waiver thereof or all of the directors at the time in office be present at such meeting.

ARTICLE VII

(1) Whether or not a vote of shareholders is otherwise required, the affirmative vote of the holders of not less than 80 percent of the outstanding shares of "Voting Stock" (as

hereinafter defined) of the Company shall be required for the approval or authorization of any "Business Transaction" (as hereinafter defined) with any "Related Person" (as hereinafter defined) or any Business Transaction in which a Related Person has an interest (except proportionately as a shareholder of the Company); provided, however, that the 80 percent voting requirement shall not be applicable if either:

(a) The "Continuing Directors" (as hereinafter defined) of the Company by at least a two-thirds vote (i) have expressly approved in advance the acquisition of the outstanding shares of Voting Stock that caused such Related Person to become a Related Person, or (ii) have expressly approved such Business Transaction; or

(b) The cash or fair market value (as determined by at least a majority of the Continuing Directors) of the property, securities or other consideration to be received per share by holders of Voting Stock of the Company (other than the Related Person) in the Business Transaction is not less than the "Highest Purchase Price" or the "Highest Equivalent Price" (as those terms are hereinafter defined) paid by the Related Person involved in the Business Transaction in acquiring any of its holdings of the Company's Voting Stock.

(2) For purposes of this Article VII:

(a) The term "Business Transaction" shall include, without limitation, (i) any merger, consolidation or plan of exchange of the Company, or any entity controlled by or under common control with the Company, with or into any Related Person, or any entity controlled by or under common control with such Related Person, (ii) any merger, consolidation or plan of exchange of a Related Person, or any entity controlled by or under

common control with such Related Person, with or into the Company or any entity controlled by or under common control with the Company, (iii) any sale, lease, exchange, transfer or other disposition (in one transaction or a series of transactions), including without limitation a mortgage or any other security device, of all or any "Substantial Part" (as hereinafter defined) of the property and assets of the Company, or any entity controlled by or under common control with the Company, to a Related Person, or any entity controlled by or under common control with such Related Person, (iv) any purchase, lease, exchange, transfer or other acquisition (in one transaction or a series of transactions), including without limitation a mortgage or any other security device, of all or any Substantial Part of the property and assets of a Related Person or any entity controlled by or under common control with such Related Person, by the Company or any entity controlled by or under common control with the Company, (v) any recapitalization of the Company that would have the effect of increasing the voting power of a Related Person, (vi) the issuance, sale, exchange or other disposition of any securities of the Company, or of any entity controlled by or under common control with the Company, by the Company or by any entity controlled by or under common control with the Company, (vii) any liquidation, spin-off, split-off, split-up or dissolution of the Company, and

(viii) any agreement, contract or other arrangement providing for any of the transactions described in this definition of Business Transaction.

(b) The term "Related Person" shall mean and include (i) any individual, corporation, association, trust, partnership or other person or entity (a "Person") which, together with its "Affiliates" (as hereinafter defined) and "Associates" (as hereinafter defined), "Beneficially Owns" (as defined in Rule 13d-3 of the General Rules and Regulations under the Securities Exchange Act of 1934 as in effect at June 13, 1984) in the aggregate 20 percent or more of the outstanding Voting Stock of the Company, and (ii) any Affiliate or Associate (other than the Company or a subsidiary of the Company of which the Company owns, directly or indirectly, more than 80 percent of the voting stock) of any such Person. Two or more Persons acting in concert for the purpose of acquiring, holding or disposing of Voting Stock of the Company shall be deemed a "Person."

(c) Without limitation, any share of Voting Stock of the Company that any Related Person has the right to acquire at any time (notwithstanding that Rule 13d-3 deems such shares to be beneficially owned only if such right may be exercised within 60 days) pursuant to any agreement, contract, arrangement or understanding, or upon exercise of conversion rights, warrants or

options, or otherwise, shall be deemed to be Beneficially Owned by such Related Person and to be outstanding for purposes of subsection (b) above.

(d) For the purposes of subsection (b) of Section 1 of Article VII, the term "other consideration to be received" shall include, without limitation, Common Stock or other capital stock of the Company retained by its existing shareholders, other than any Related Person or other Person who is a party to such Business Transaction, in the event of a Business Transaction in which the Company is the survivor.

(e) The term "Voting Stock" shall mean all of the outstanding shares of capital stock of the Company entitled to vote generally in the election of directors, considered as one class, and each reference to a proportion of shares of Voting Stock shall refer to such proportion of the votes entitled to be cast by such shares.

(f) The term "Continuing Director" shall mean a director of the Company who became a director on the effective date of the merger of PacifiCorp, a Maine corporation, and Utah Power & Light Company, a Utah corporation, into the Company, provided that any person becoming a director subsequent to such date whose election, or nomination for election, by the Company's

shareholders was approved by a vote of at least a majority of the Continuing Directors shall be considered a Continuing Director.

(g) A Related Person shall be deemed to have acquired a share of the Voting Stock of the Company at the time when such Related Person became the Beneficial Owner thereof. With respect to the shares owned by Affiliates, Associates or other Persons whose ownership is attributed to a Related Person under the foregoing definition of Related Person, if the price paid by such Related Person for such shares is not determinable by a majority of the Continuing Directors, the price so paid shall be deemed to be the higher of (i) the price paid upon the acquisition thereof by the Affiliate, Associate or other Person or (ii) the market price of the shares in question at the time when such Related Person became the Beneficial Owner thereof.

(h) The terms "Highest Purchase Price" and "Highest Equivalent Price" as used in this Article VII shall mean the following: If there is only one class of capital stock of the Company issued and outstanding, the Highest Purchase Price shall mean the highest price that can be determined to have been paid at any time by the Related Person involved in the Business Transaction for any share or shares of that class of capital stock. If there is more than one class of capital stock of the Company issued and outstanding, the Highest Equivalent Price shall mean,

with respect to each class and series of capital stock of the Company, the amount determined by a majority of the Continuing Directors, on whatever basis they believe is appropriate, to be the highest per share price equivalent to the highest price that can be determined to have been paid at any time by the Related Person for any share or shares of any class or series of capital stock of the Company. The Highest Purchase Price and the Highest Equivalent Price shall include any brokerage commissions, transfer taxes and soliciting dealers' fees paid by a Related Person with respect to the shares of capital stock of the Company acquired by such Related Person. In the case of any Business Transaction with a Related Person, the Continuing Directors shall determine the Highest Purchase Price or the Highest Equivalent Price for each class and series of the capital stock of the Company. The Highest Purchase Price and Highest Equivalent Price shall be appropriately adjusted to reflect the occurrence of any reclassification, recapitalization, stock split, reverse stock split or other readjustment in the number of outstanding shares of capital stock of the Company, or the declaration of a stock dividend thereon, between the last date upon which the Related Party paid the Highest Purchase Price or Highest Equivalent Price and the effective date of the merger or consolidation or the date of distribution to shareholders of the

Company of the proceeds from the sale of all or substantially all of the assets of the Company.

(i) The term "Substantial Part" shall mean 10 percent or more of the fair market value of the total assets of the Person in question, as reflected on the most recent balance sheet of such Person existing at the time the shareholders of the Company would be required to approve or authorize the Business Transaction involving the assets constituting any such Substantial Part.

(j) The term "Affiliate," used to indicate a relationship with a specified Person, shall mean a Person that directly, or indirectly through one or more intermediaries, controls, or is controlled by, or is under common control with, the Person specified.

(k) The term "Associate," used to indicate a relationship with a specified Person, shall mean (i) any entity of which such specified Person is an officer or partner or is, directly or indirectly, the beneficial owner of 10 percent or more of any class of equity securities, (ii) any trust or other estate in which such specified Person has a substantial beneficial interest or as to which such specified Person serves as trustee or in a similar fiduciary capacity, (iii) any relative or spouse of such specified Person, or any relative of such spouse, who has the same home as

such specified Person or who is a director or officer of the Company or any of its subsidiaries, and (iv) any Person who is a director or officer of such specified Person or any of its parents or subsidiaries (other than the Company or an entity controlled by or under common control with the Company).

(l) The term "Subsidiary," when used to indicate a relationship with a specified Person, shall mean an Affiliate controlled by such Person directly, or indirectly through one or more intermediaries.

(3) For the purposes of this Article VII, a majority of the Continuing Directors shall have the power to make a good faith determination, on the basis of information known to them, of: (a) the number of shares of Voting Stock that any Person Beneficially Owns, (b) whether a Person is an Affiliate or Associate of another, (c) whether a Person has an agreement, contract, arrangement or understanding with another as to the matters referred to in subsection (2)(a)(viii) or (2)(c) hereof, (d) whether the assets subject to any Business Transaction constitute a Substantial Part, (e) whether any Business Transaction is one in which a Related Person has an interest (except proportionately as a shareholder of the Company), and (f) such other matters with respect to which a determination is required under this Article VII.

(4) The provisions set forth in this Article VII may not be amended, altered, changed or repealed in any respect unless such action is approved by the affirmative vote of the holders of not less than 80 percent of the outstanding shares of Voting Stock of the Company.

ARTICLE VIII

The Company shall indemnify to the fullest extent not prohibited by law any person who is made, or threatened to be made, a party to an action, suit or proceeding, whether civil, criminal, administrative, investigative, or otherwise (including an action, suit or proceeding by or in the right of the Company) by reason of the fact that the person is or was a director, officer, employee or agent of the Company or a fiduciary within the meaning of the Employee Retirement Income Security Act of 1974 with respect to any employee benefit plan of the Company, or serves or served at the request of the Company as a director, officer, employee or agent, or as a fiduciary of an employee benefit plan, of another corporation, partnership, joint venture, trust or other enterprise. The Company shall pay for or reimburse the reasonable expenses incurred by any such person in any such proceeding in advance of the final disposition of the proceeding to the fullest extent not prohibited by law. This Article shall not be deemed exclusive of any other provisions for indemnification or advancement of expenses of directors, officers, employees, agents and fiduciaries that may be included in any statute, bylaw, agreement, general or specific action of the Board of Directors, vote of shareholders or otherwise.

ARTICLE IX

No director of the Company shall be personally liable to the Company or its shareholders for monetary damages for conduct as a director; provided that this Article IX shall not eliminate the liability of a director for any act or omission for which such elimination of liability is not permitted under the Oregon Business Corporation Act. No amendment to the Oregon Business Corporation Act that further limits the acts or omissions for which elimination

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of liability is permitted shall affect the liability of a director for any act or omission which occurs prior to the effective date of such amendment.

ARTICLES OF MERGER

of

Scottish Power Acquisition Co.

with and into

PacifiCorp

FILED
NOV 2 9 1999
OREGON
SECRETARY OF STATE

The following Articles of Merger are filed pursuant to Sections 60.481 and 60.494 of the Oregon Business Corporation Act by PacifiCorp, an Oregon corporation ("PacifiCorp"), the surviving corporation in the merger of Scottish Power Acquisition Co., 714779-4 an Oregon corporation ("Merger Sub"), with and into PacifiCorp, with PacifiCorp as the surviving corporation (the "Merger"):

1. Plan of Merger. The Amended and Restated Agreement and Plan of Merger, dated as of December 6, 1998, as amended as of January 29, 1999 and February 9, 1999, and amended and restated as of February 23, 1999, and as further amended on or prior to the date hereof, by and among Scottish Power plc (formerly New Scottish Power plc), a public limited company incorporated under the laws of Scotland, Scottish Power U.K. plc (formerly Scottish Power plc), a public limited company incorporated under the laws of Scotland, NA General Partnership, a Nevada general partnership, and PacifiCorp (the "Plan") relating to the Merger is attached hereto as Exhibit A, and is incorporated herein by this reference as if fully set forth. The Plan has been duly adopted and approved by the Board of Directors of each of PacifiCorp and Merger Sub.

2. Shareholder Approvals.

(a) The Plan was approved by the sole shareholder of Merger Sub as follows, such approval being the only shareholder approval of the Plan required on the part of Merger Sub:

297,341,004 shares of common stock of Merger Sub were outstanding, and each such share was entitled to cast one vote on the Plan;

297,341,004 shares of common stock of Merger Sub were voted in favor of the Plan; and

0 shares of common stock of Merger Sub were voted against the Plan.

(b) The Plan was approved by the following voting groups of shareholders of PacifiCorp, such approvals being the only shareholder approvals of the Plan required on the part of PacifiCorp:

297,331,855 shares of common stock of PacifiCorp were outstanding and entitled to vote as a single class, and each such share was entitled to cast one vote on the Plan;

207,506,780 shares of common stock of PacifiCorp were voted in favor of the Plan; and

27,051,938 shares of common stock of PacifiCorp were voted against the Plan;

3,159,370 shares of preferred stock of PacifiCorp were outstanding and entitled to vote together as a single class on the Plan, and these shares were entitled to cast an aggregate of 2,413,541.5 votes;

2,197,613 votes of preferred stock of PacifiCorp were cast in favor of the Plan; and

8,403 votes of preferred stock of PacifiCorp were cast against the Plan.

3. Effective Date. These Articles of Merger shall be effective upon the date and time on which these Articles of Merger are duly filed with the Corporation Division of the Secretary of State for the State of Oregon.

Dated: November 29, 1999.

PACIFICORP,
an Oregon corporation

By: Richard T. O'Brien

Name: Richard T. O'Brien
Title: Executive Vice President and Chief Operating Officer

Execution Copy

AMENDED AND RESTATED

AGREEMENT AND PLAN OF MERGER

dated as of December 6, 1998,

as amended as of January 29, 1999 and February 9, 1999,

and amended and restated as of February 23, 1999,

by and among

NEW SCOTTISH POWER PLC,

SCOTTISH POWER PLC,

NA GENERAL PARTNERSHIP

and

PACIFICORP

TABLE OF CONTENTS

This Table of Contents is not part of the Agreement to which it is attached but is inserted for convenience only.

SCHEDULES

EXHIBITS

GLOSSARY OF DEFINED TERMS

The following terms, when used in this Agreement, have the meanings ascribed to them in the corresponding Sections of this Agreement listed below:

"1935 Act"	--	Section 3.02(c)
"ADR Depositary"	--	Section 2.01(e)
"ADR Holder Proposal	--	Section 6.03(c)
"ADS Consideration"	--	Section 2.01(c)(i)
"Advisory Board"	--	Section 6.12(b)
"affiliate"	--	Section 9.12 (a)
"Affiliate Agreement"	--	Section 6.04
"Agreement"	--	Preamble
"Alternative Proposal"	--	Section 5.08
"Antitrust Division"	--	Section 6.08
"Articles of Merger"	--	Section 1.03
"BCA"	--	Section 1.01
"beneficially"	--	Section 9.12(b)
"business day"	--	Section 9.12(c)
"Certificates"	--	Section 2.03(b)
"Circular"	--	Section 3.09(b)
"Closing"	--	Section 1.02
"Closing Date"	--	Section 1.02
"Code"	--	Preamble
"Companies Act"	--	Section 4.02(a)
"Company"	--	Preamble
"Company Affiliates"	--	Section 6.04
"Company Budget"	--	Section 5.01(e)
"Company Common Stock"	--	Preamble
"Company Disclosure Letter"	--	Section 3.01(a)
"Company Employee Benefit Plan"	--	Section 3.13(b)(i)
"Company Financial Statements"	--	Section 3.05(a)
"Company Joint Venture"	--	Section 3.01(b)(ii)
"Company Option"	--	Section 2.01(f)
"Company Option Plan"	--	Section 2.01(f)
"Company Permits"	--	Section 3.10
"Company Preferred Stock"	--	Section 3.02(a)
"Company SEC Reports"	--	Section 3.05(a)
"Company Stock Option"	--	Section 6.10(a)
"Company Stockholders' Approval"	--	Section 6.03(b)
"Company Stockholders' Meeting"	--	Section 6.03(b)
"Confidentiality Agreement"	--	Section 6.01
"Constituent Corporations"	--	Section 1.01
"Contracts"	--	Section 3.04(a)
"control," "controlling," "controlled by" and "under common control with"	--	Section 9.12(a)

"Converted Shares"	--	Section 2.01(c)(i)
"DOE"	--	Section 3.05(b)
"Effective Time"	--	Section 1.03
"Election Date"	--	Section 2.02(a)
"Environmental Claims"	--	Section 3.15(g)(i)
"Environmental Laws"	--	Section 3.15(g)(ii)
"Environmental Permits"	--	Section 3.15(b)
"ERISA"	--	Section 3.13(b)(i)
"ERISA Affiliate"	--	Section 3.13(b)(iii)
"Exchange Act"	--	Section 3.04(b)
"Exchange Agent"	--	Section 2.03(a)
"Exchange Fund"	--	Section 2.03(a)
"FERC"	--	Section 3.05(b)
"FSA"	--	Section 3.09(b)
"FTA"	--	Section 7.01(k)
"FTC"	--	Section 6.08
"Governmental or Regulatory Authority"	--	Section 3.04(a)
"group"	--	Section 9.12(f)
"Hazardous Materials"	--	Section 3.15(g)(iii)
"HoldCo ADRs"	--	Preamble
"HoldCo ADSs"	--	Preamble
"HoldCo Employee Benefit Plans	--	Section 4.13(b)
"HoldCo Group"	--	Section 5.02(k)
"HoldCo Ordinary Shares"		Preamble
"HoldCo Share Schemes"	--	Section 4.02(a)
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"HSR Act"	--	Section 3.04(b)
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"Lien"	--	Section 3.02(b)
"Listing Particulars"	--	Section 3.09(b)
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"material adverse effect"	--	Section 9.12(e)
"Merger"	--	Preamble
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"OFFER"	--	Section 7.01(l)
"OFT"	--	Section 7.01(k)

This AMENDED AND RESTATED AGREEMENT AND PLAN OF MERGER, dated as of December 6, 1998 and amended as of January 29, 1999 and February 9, 1999, and amended and restated as of February 23, 1999 (this "Agreement"), is made and entered into by and among NEW SCOTTISH POWER PLC, a public limited company incorporated under the laws of Scotland ("HoldCo"), SCOTTISH POWER PLC, a public limited company incorporated under the laws of Scotland ("ScottishPower"), NA GENERAL PARTNERSHIP, a Nevada general partnership indirectly wholly owned by ScottishPower (the "Partnership"), and PACIFICORP, an Oregon corporation (the "Company"), and, with respect to Section 2.01 hereof only, Scottish Power NA 1 Limited, a limited liability company incorporated under the laws of Scotland ("UKSub1") and Scottish Power NA 2 Limited, a limited liability company incorporated under the laws of Scotland ("UKSub2").

WHEREAS, ScottishPower, the Partnership, UKSub1, UKSub2 and the Company entered into an Agreement and Plan of Merger dated as of December 6, 1998 and amended as of January 29, 1999 and February 9, 1999 (the "Original Agreement");

WHEREAS, HoldCo, ScottishPower, the Partnership, UKSub1, UKSub2 and the Company wish to amend and restate the Original Agreement in its entirety, effective as of the date set forth in Section 9.03(c);

WHEREAS, the Board of Directors of ScottishPower intends to recommend to its shareholders a proposal to introduce HoldCo as a new holding company for the ScottishPower group pursuant to a scheme of arrangement sanctioned by the Court of Session, Edinburgh (the "Scheme of Arrangement"), substantially in the form of the draft Scheme of Arrangement attached hereto as Exhibit A subject to such amendments as ScottishPower may reasonably deem necessary or desirable; provided, that if such amendments would have a material adverse effect on the benefits of the Merger for the holders of Company Common Stock, such amendments may only be effected with the prior written consent of the Company;

WHEREAS, pursuant to the Scheme of Arrangement, (A) all ordinary shares of 50 pence each of ScottishPower ("ScottishPower Ordinary Shares") will be cancelled and the holders thereof will receive in place of the ScottishPower Ordinary Shares then held by them an identical number of ordinary shares of 50 pence each of HoldCo ("HoldCo Ordinary Shares"), and (B) all ScottishPower Ordinary Shares represented by American Depositary Shares of ScottishPower ("ScottishPower ADSs"), each representing four (4) ScottishPower Ordinary Shares and evidenced by American Depositary Receipts ("ScottishPower ADRs"), will be cancelled and the holders thereof will receive in place of the ScottishPower ADSs then held by them an identical number of American Depositary Shares of HoldCo ("HoldCo ADSs"), each representing four (4) HoldCo Ordinary Shares and evidenced by American Depositary Receipts ("HoldCo ADRs");

WHEREAS, after the Scheme Date (as defined in Section 2.01) and prior to the Closing Date (as defined in Section 1.02) ScottishPower shall transfer to HoldCo all of the outstanding shares of UKSub 1 and UKSub 2 ("Share Transfer");

WHEREAS, the Boards of Directors of HoldCo, ScottishPower and the Company and the partners of the Partnership, have each determined that it is advisable and in the best

interests of their respective stockholders and partners, as the case may be, to consummate, and have approved, the business combination transaction provided for herein in which Merger Sub (as defined below) would merge with and into the Company and the Company would become an indirect, wholly-owned subsidiary of HoldCo (the "Merger") pursuant to the terms of this Agreement, whereby each issued and outstanding share of common stock of the Company (the "Company Common Stock"), other than shares owned directly or indirectly by HoldCo, ScottishPower, the Partnership, Merger Sub or the Company, will be converted into the right to receive either (i) HoldCo ADSs evidenced by HoldCo ADRs or (ii) HoldCo Ordinary Shares (the "Merger Ordinary Shares");

WHEREAS, immediately prior to the Closing Date (as defined in Section 1.02), an Oregon corporation wholly-owned by the Partnership ("Merger Sub") will be formed for the purpose of effectuating the Merger;

WHEREAS, the respective Boards of Directors of HoldCo, ScottishPower and the Company, and the partners of the Partnership, have determined that the Merger is in furtherance of and consistent with their respective long-term business strategies and is fair to and in the best interests of their respective shareholders and stockholders, each of HoldCo and ScottishPower has approved this Agreement and the Merger, UKSub 1 and UKSub 2 in their capacity as general partners of the Partnership and as parties to Section 2.01 have approved this Agreement and the Merger, and the Partnership has agreed that, immediately following the formation of Merger Sub, it will approve this Agreement and the Merger as the sole stockholder of Merger Sub;

WHEREAS, for federal income tax purposes, it is intended that the Merger shall qualify as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code of 1986, as amended (the "Code"); and

WHEREAS, HoldCo, ScottishPower, the Partnership and the Company desire to make certain representations, warranties and agreements in connection with the Merger and also to prescribe various conditions to the Merger;

NOW, THEREFORE, in consideration of the mutual covenants and agreements set forth in this Agreement, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

ARTICLE I
THE MERGER

1.01 The Merger. Upon the terms and subject to the conditions of this Agreement, at the Effective Time (as defined in Section 1.03), Merger Sub shall be merged with and into the Company in accordance with the Business Corporation Act of the State of Oregon (the "BCA"). At the Effective Time, the separate existence of Merger Sub shall cease and the Company shall continue as the surviving corporation in the Merger (the "Surviving Corporation"). Merger Sub and the Company are sometimes referred to herein as the "Constituent Corporations". As a result of the Merger, the outstanding shares of capital stock of

the Constituent Corporations shall be converted and cancelled in the manner provided in Article II.

1.02 Closing. Unless this Agreement shall have been terminated and the transactions herein contemplated shall have been abandoned pursuant to Section 8.01, and subject to the satisfaction or waiver (where applicable) of the conditions set forth in Article VII, the consummation of the Merger (the "Closing") will take place at the offices of Milbank, Tweed, Hadley & McCloy, 1 Chase Manhattan Plaza, New York, New York 10005, at 10:00 a.m., local time, on the fifth business day following satisfaction or waiver (where applicable) of the conditions set forth in Article VII, unless another date, time or place is agreed to in writing by the parties hereto (the "Closing Date"). At the Closing there shall be delivered to HoldCo, ScottishPower, the Partnership, Merger Sub and the Company the certificates and other documents and instruments required to be delivered under Article VII.

1.03 Effective Time. At the Closing, the parties shall cause to be duly prepared and executed by the Company as the Surviving Corporation and Merger Sub articles of merger (the "Articles of Merger") for filing on, or as soon as practicable after, the Closing Date with the Secretary of State of the State of Oregon (the "Secretary of State"), as provided in Section 60.494 of the BCA. The Merger shall become effective at the time of the filing of the Articles of Merger with the Secretary of State (such date and time being referred to herein as the "Effective Time").

1.04 Governing Instrument. At the Effective Time, (i) the Articles of Incorporation of the Company as in effect immediately prior to the Effective Time shall be the Articles of Incorporation of the Surviving Corporation until thereafter amended as provided by law and such Articles of Incorporation, and (ii) the Bylaws of the Company as in effect immediately prior to the Effective Time shall be the Bylaws of the Surviving Corporation until thereafter amended as provided by law, the Articles of Incorporation of the Surviving Corporation and such Bylaws.

1.05 Directors and Officers of the Surviving Corporation. The individuals listed on Schedule I shall, from and after the Effective Time, be the directors and executive officers, respectively, of the Company as the Surviving Corporation until their successors shall have been duly elected or appointed and qualified or until their earlier death, resignation or removal in accordance with the Surviving Corporation's Articles of Incorporation and Bylaws.

1.06 Effects of the Merger. Subject to the foregoing, the effects of the Merger shall be as provided in the applicable provisions of the BCA.

1.07 Further Assurances. Each party hereto will, either prior to or after the Effective Time, execute such further documents, instruments, deeds, bills of sale, assignments and assurances and take such further actions as may reasonably be requested by one or more of the other parties hereto to consummate the Merger, to vest the Surviving Corporation with full title to all assets, properties, privileges, rights, approvals, immunities and franchises of either of the Constituent Corporations or to effect the other purposes of this Agreement.

ARTICLE II
CONVERSION OF SHARES

2.01 Conversion of Capital Stock. At the Effective Time, by virtue of the Merger and, with respect to clauses (a)-(c), (f) and (g) hereof, without any action on the part of the holder thereof:

(a) Capital Stock of Merger Sub. Each issued and outstanding share of the common stock of Merger Sub ("Merger Sub Common Stock") outstanding immediately prior to the Effective Time shall be cancelled and the Surviving Corporation shall issue to the Partnership at the Effective Time such number of shares of common stock as is equal to the number of shares of Merger Sub Common Stock, with the same rights, powers and privileges as the Merger Sub Common Stock, and shall constitute the only outstanding shares of common stock of the Surviving Corporation ("Surviving Corporation Common Stock").

(b) Cancellation of Treasury Stock and Stock Owned by HoldCo, ScottishPower and Subsidiaries. All shares of Company Common Stock that are owned by the Company as treasury stock and any shares of Company Common Stock owned by HoldCo, ScottishPower, the Partnership, Merger Sub or any other wholly-owned Subsidiary (as defined in Section 9.12) of HoldCo or ScottishPower, shall be canceled and retired and shall cease to exist and no stock of HoldCo or other consideration shall be delivered in exchange therefor.

(c) Conversion of Company Common Stock. (i) Each issued and outstanding share of Company Common Stock (other than shares to be cancelled in accordance with Section 2.01(b)), shall be converted into the right to receive (A) .58 HoldCo ADSs (the "ADS Consideration"), or (B) if a properly completed Ordinary Share Election Form (as defined in Section 2.02) shall have been submitted to the Exchange Agent (as defined in Section 2.02) on a timely basis with respect to such share of Company Common Stock, 2.32 fully paid and nonassessable Merger Ordinary Shares (the "Ordinary Share Consideration"; the Ordinary Share Consideration and the ADS Consideration are each sometimes referred to herein as the "Merger Consideration"). All shares of Company Common Stock to be converted into shares of HoldCo ADSs or Merger Ordinary Shares pursuant to this Section 2.01(c) are hereinafter referred to as "Converted Shares."

(ii) If, (A) prior to the time at which the Scheme of Arrangement becomes effective (the "Scheme Date"), ScottishPower shall pay a dividend in, subdivide, consolidate or, except pursuant to the Scheme of Arrangement, issue by capitalization of its reserves, any ScottishPower Ordinary Shares or (B) following the Scheme Date and prior to the Effective Time, HoldCo shall pay a dividend in, subdivide, consolidate or issue by capitalization of its reserves, any HoldCo Ordinary Shares, as applicable, the Merger Consideration shall be multiplied by a fraction, the numerator of which shall be the number of ScottishPower Ordinary Shares or HoldCo Ordinary Shares, as applicable, outstanding immediately after, and the denominator of which shall be the number of such shares outstanding immediately before, the occurrence of such event, and the resulting product shall from and after the date of such event be the Merger Consideration subject to further adjustment in accordance with this sentence.

(iii) All shares of Company Common Stock converted in accordance with paragraph (i) of this Section 2.01(c) shall no longer be outstanding and shall, as part of the consideration for the allotment and issue by HoldCo referred to in Section 2.01(e) below, automatically be canceled and retired and shall cease to exist, and each holder of a certificate representing any such shares shall cease to have any rights with respect thereto, except the right to receive the Merger Consideration and any cash in lieu of fractional HoldCo ADSs or Merger Ordinary Shares (determined in accordance with Section 2.03(e)), upon the surrender of such certificate in accordance with Section 2.03, without interest.

(d) UKSub 1 shall continue to be the owner of a 90% general partnership interest in the Partnership, and UKSub 2 shall continue to be the owner of a 10% general partnership interest in the Partnership.

(e) As consideration for the acquisition by the Partnership of the Surviving Corporation Common Stock in accordance with Section 2.01(a): (i) the Partnership agrees to issue a loan note to HoldCo in the form and in an amount to be mutually agreed upon by HoldCo and the Partnership (the "Partnership Loan Note"), (ii) UKSub 1 agrees to allot and issue to HoldCo fully paid ordinary shares of £1 each and (iii) UKSub 2 agrees to allot and issue to HoldCo fully paid ordinary shares of £1 each. In consideration of the other steps referred to in this Section 2.01 (including, to the extent set out in column A of Exhibit B attached hereto, the issue of the Partnership Loan Note by the Partnership), HoldCo shall allot and issue (i) the number of HoldCo Ordinary Shares represented by HoldCo ADSs to be issued in the Merger to HoldCo's United States Depositary (the "ADR Depositary") on behalf of the holders of Company Common Stock entitled thereto for the purposes of giving effect to the conversion and exchange referred to in this Article II, and (ii) the number of Merger Ordinary Shares to be issued in the Merger. In consideration of the other steps referred to in this Section 2.01 (including, to the extent set out in column B of Exhibit B, the issues of ordinary shares by UKSub 1 and UKSub 2 referred to above), HoldCo shall allot and issue (i) the number of HoldCo Ordinary Shares represented by HoldCo ADSs to be issued in the Merger to the ADR Depositary on behalf of the holders of Company Common Stock entitled thereto for the purposes of giving effect to the conversion and exchange referred to in this Article II, and (ii) the number of Merger Ordinary Shares to be issued in the Merger.

(f) Subject to the terms and conditions of the Company's Stock Incentive Plan (the "Company Option Plan") and the stock option agreements executed pursuant thereto, each option to purchase Company Common Stock granted thereunder that is outstanding at the Effective Time (a "Company Option") shall be converted into an option to acquire, on the same terms and conditions as were applicable under the Company Option Plan at the Effective Time, a number of (i) HoldCo ADSs equal to the ADS Consideration, or (ii) Merger Ordinary Shares equal to the Ordinary Share Consideration, in each case multiplied by the number of shares of Company Common Stock subject to such option immediately prior to the Effective Time, on the basis described in Section 6.10. The Company as the Surviving Corporation and HoldCo shall take all action necessary to ensure that HoldCo has control of the operation of the Company Option Plan and the Company Restricted Stock Plans.

(g) Subject to Section 5.01 (c)(iv)(C), the Company Preferred Stock (as defined below) shall not be affected by the Merger and shall continue to have the same rights and preferences as were in effect prior to consummation of the Merger.

2.02 Procedure for Election. At such time as shall be sufficient to permit the holders of Company Common Stock to exercise their right to make an election pursuant to this Section 2.02, HoldCo will make available to all holders of Company Common Stock of record a letter of transmittal and election form and other appropriate materials (collectively, the "Ordinary Share Election Form") providing for such holder to elect to receive the Ordinary Share Consideration with respect to all or any portion of such holder's shares of Company Common Stock ("Ordinary Share Election"). As of the Election Date (as hereinafter defined), any share of Company Common Stock with respect to which there shall not have been effected such election by submission to the Exchange Agent (as defined in Section 2.03) of an effective, properly completed Ordinary Share Election Form shall be converted in the Merger into the right to receive the ADS Consideration.

(a) Any election to receive the Ordinary Share Consideration shall have been validly made only if the Exchange Agent shall have received by 5:00 p.m., New York City time, on or prior to the Election Date, an Ordinary Share Election Form properly completed and executed (with the signature or signatures thereon guaranteed if required by the Ordinary Share Election Form) by such holder of shares of Company Common Stock. As used herein, "Election Date" means a date announced by HoldCo, in a news release delivered to the Dow Jones News Service, as the last day on which an Ordinary Share Election Form will be accepted; provided, however, that such date shall be a business day no earlier than five (5) business days prior to the date on which the Effective Time occurs and shall be at least five (5), and not more than 20, business days following the date of such news release; provided further, that, subsequent to such announcement, HoldCo shall have the right to change such Election Date to a later date so long as such later date is (i) at least five (5) business days following the date of notice of such change and (ii) not later than the date on which the Effective Time occurs. HoldCo shall have the right to make reasonable determinations and to establish reasonable procedures (not inconsistent with the terms of this Agreement) in guiding the Exchange Agent in its determination as to the validity of Ordinary Share Election Forms and of any revision, revocation or withdrawal thereof.

(b) Two or more holders of shares of Company Common Stock who are determined to constructively own such shares owned by each other by virtue of Section 318(a) of the Code and who so certify to HoldCo's reasonable satisfaction, and any single holder of shares of Company Common Stock who holds such shares in two or more different names and who so certifies to HoldCo's reasonable satisfaction, may submit a joint Ordinary Share Election Form covering the aggregate shares of Company Common Stock owned by all such holders or by such single holder, as the case may be. For all purposes of this Agreement, each such group of holders which, and each such single holder who, submits a joint Ordinary Share Election Form shall be treated as a single holder of shares of Company Common Stock.

(c) Record holders of shares of Company Common Stock who are nominees only may submit a separate Ordinary Share Election Form for each beneficial owner for whom such record holder is a nominee; provided, however, that, at the request of HoldCo, such record

holder shall certify to the reasonable satisfaction of HoldCo that such record holder holds such shares as nominee for the beneficial owner thereof. For purposes of this Agreement, each beneficial owner for which an Ordinary Share Election Form is submitted will be treated as a separate holder of shares of Company Common Stock subject, however, to Section 2.02(b).

(d) Any holder of shares of Company Common Stock may at any time prior to 5:00 p.m. New York City time, on the Election Date revoke such holder's election by written notice to the Exchange Agent received at any time prior to 5:00 p.m., New York City time, on the Election Date.

2.03 Exchange of Certificates. (a) Exchange Agent. Promptly following the Effective Time, (i) HoldCo shall issue to and deposit with the ADR Depositary, for the benefit of the holders of shares of Company Common Stock converted into the ADS Consideration in accordance with Section 2.01(c), HoldCo Ordinary Shares in an amount sufficient to permit the ADR Depositary to issue HoldCo ADRs representing the number of HoldCo ADSs issuable pursuant to Section 2.01(c) and (ii) HoldCo shall, for the benefit of the holders of the shares of Company Common Stock converted into Merger Ordinary Shares in the Merger, make available to the Surviving Corporation for deposit with a bank or trust company designated before the Closing Date by HoldCo and reasonably acceptable to the Company (the "Exchange Agent"), (A) certificates representing the number of duly authorized whole Merger Ordinary Shares issuable in accordance with Section 2.01(c), and (B) an amount of cash equal to the aggregate amount payable in lieu of fractional HoldCo ADSs and Merger Ordinary Shares in accordance with Section 2.03(e) (such cash, certificates representing Merger Ordinary Shares and HoldCo ADRs representing HoldCo ADSs, together with any dividends or distributions with respect thereto being hereinafter referred to as the "Exchange Fund"), to be held for the benefit of and distributed to the holders of Converted Shares in accordance with this Section. The Exchange Agent shall agree to hold such Merger Ordinary Shares and funds for delivery as contemplated by this Section and upon such additional terms as may be agreed upon by the Exchange Agent, the Company and HoldCo. HoldCo shall cause the ADR Depositary to issue through and upon the instructions of the Exchange Agent, for the benefit of the holders of shares of the Company Common Stock converted into the ADS Consideration in accordance with Section 2.01(c), HoldCo ADRs representing the number of HoldCo ADSs issuable pursuant to Section 2.01(c). Neither HoldCo, ScottishPower, their respective affiliates nor holders of Converted Shares shall be responsible for any stamp duty reserve tax payable in connection with the ADS Consideration. The Exchange Agent shall invest any cash included in the Exchange Fund as directed by the Surviving Corporation on a daily basis. Any interest and other income resulting from such investments shall promptly be paid to the Surviving Corporation.

(b) Exchange Procedures. As soon as reasonably practicable after the Effective Time, the Surviving Corporation shall cause the Exchange Agent to mail to each holder of record of a certificate or certificates which immediately prior to the Effective Time represented outstanding shares of Company Common Stock (the "Certificates") whose shares are converted pursuant to this Article II into the right to receive HoldCo ADSs or Merger Ordinary Shares (i) a letter of transmittal (which shall specify that delivery shall be effected, and risk of loss and title to the Certificates shall pass, only upon delivery of the Certificates to the Exchange Agent and shall be in such form and have such other provisions as the Surviving Corporation or

HoldCo may reasonably specify) and (ii) instructions for use in effecting the surrender of the Certificates in exchange for certificates representing HoldCo ADRs which represent HoldCo ADSs, and Merger Ordinary Shares and cash in lieu of fractional HoldCo ADSs or Merger Ordinary Shares. Upon surrender of a Certificate for cancellation to the Exchange Agent, together with such letter of transmittal duly executed and completed in accordance with its terms, the holder of such Certificate shall be entitled to receive in exchange therefor (i) one or more HoldCo ADRs representing, in the aggregate, that whole number of HoldCo ADSs and/or a certificate or certificates representing that whole number of Merger Ordinary Shares elected to be received in accordance with Section 2.02, (ii) the amount of dividends or other distributions, if any, with a record date on or after the Effective Time which theretofore became payable with respect to such HoldCo ADSs and Merger Ordinary Shares, and (iii) the cash amount payable in lieu of fractional HoldCo ADSs and Merger Ordinary Shares in accordance with Section 2.03(e), in each case which such holder has the right to receive pursuant to the provisions of this Article II, and the Certificate so surrendered shall forthwith be canceled. In no event shall the holder of any Certificate be entitled to receive interest on any funds to be received in the Merger. In the event of a transfer of ownership of Company Common Stock which is not registered in the transfer records of the Company, one or more HoldCo ADRs representing, in the aggregate, that whole number of HoldCo ADSs and/or a certificate or certificates representing that whole number of Merger Ordinary Shares elected to be received in accordance with Section 2.02, plus the cash amount payable in lieu of fractional HoldCo ADSs and Merger Ordinary Shares in accordance with Section 2.03(e), may be issued to a transferee if the Certificate representing such Company Common Stock is presented to the Exchange Agent accompanied by all documents required to evidence and effect such transfer and by evidence that any applicable stock transfer taxes have been paid. Until surrendered as contemplated by this Section 2.03(b), each Certificate shall be deemed at any time after the Effective Time for all corporate purposes of HoldCo, except as limited by Section 2.03(c) below and subject to applicable law, to represent ownership of the whole number of HoldCo ADSs and/or Merger Ordinary Shares into which the number of shares of Company Common Stock shown thereon have been converted as contemplated by this Article II. Notwithstanding the foregoing, Certificates representing Company Common Stock surrendered for exchange by any person constituting an "affiliate" of the Company for purposes of Section 6.04 shall not be exchanged until HoldCo has received an Affiliate Agreement (as defined in Section 6.04) as provided in Section 6.04.

(c) Distributions with Respect to Unexchanged Shares. No dividends or other distributions declared, made or paid after the Effective Time with respect to HoldCo Ordinary Shares with a record date on or after the Effective Time shall be paid to the holder of any unsurrendered Certificate with respect to the HoldCo ADSs and Merger Ordinary Shares represented thereby and no cash payment in lieu of fractional HoldCo ADSs and Merger Ordinary Shares shall be paid to any such holder pursuant to Section 2.03(e) until the holder of record of such Certificate shall surrender such Certificate in accordance with this Section. Subject to the effect of applicable laws, following surrender of any such Certificate, there shall be paid to the record holder of the certificates representing the HoldCo ADRs which represent HoldCo ADSs and Merger Ordinary Shares issued in exchange therefor, without interest, (i) at the time of such surrender, the amount of dividends or other distributions, if any, with a record date on or after the Effective Time which theretofore became payable, but which were not paid by reason of the immediately preceding sentence, with respect to such HoldCo ADSs and Merger

Ordinary Shares and (ii) at the appropriate payment date, the amount of dividends or other distributions with a record date on or after the Effective Time but prior to surrender and a payment date subsequent to surrender payable with respect to such HoldCo ADSs and Merger Ordinary Shares.

(d) No Further Ownership Rights in Company Common Stock. All HoldCo ADSs and Merger Ordinary Shares issued upon the surrender for exchange of Certificates in accordance with the terms hereof (including any cash paid pursuant to Section 2.03(e)) shall be deemed to have been issued at the Effective Time in full satisfaction of all rights pertaining to the Converted Shares represented thereby, subject, however, to the Surviving Corporation's obligation to pay any dividends which may have been declared by the Company on the shares of Company Common Stock in accordance with the terms of this Agreement and which remained unpaid at the Effective Time. From and after the Effective Time, the stock transfer books of the Company shall be closed and there shall be no further registration of transfers thereon of the shares of Company Common Stock which were outstanding immediately prior to the Effective Time. If, after the Effective Time, Certificates are presented to the Surviving Corporation for any reason, they shall be canceled and exchanged as provided in this Section.

(e) No Fractional Shares. No certificate or scrip representing fractional HoldCo ADSs or Merger Ordinary Shares will be issued in the Merger upon the surrender for exchange of Certificates, and such fractional HoldCo ADS or Merger Ordinary Share interests will not entitle the owner thereof to vote or to any rights of a holder of HoldCo ADSs or Merger Ordinary Shares. In lieu of any such fractional HoldCo ADS or Merger Ordinary Share, each holder of Certificates who would otherwise have been entitled to a fraction of HoldCo ADS or Merger Ordinary Share in exchange for such Certificates pursuant to this Section shall receive from the Exchange Agent, as applicable, (i) a cash payment in lieu of such fractional HoldCo ADS determined by multiplying (A) the Sales Price (as defined below) of a HoldCo ADS on the last Trading Day (as defined below) immediately preceding the Closing Date by (B) the fractional HoldCo ADS interest to which such holder would otherwise be entitled, and/or (ii) a cash payment in lieu of such fractional Merger Ordinary Share determined by multiplying (A) the Sales Price of a HoldCo ADS Ordinary Share on the last Trading Day immediately preceding the Closing Date by (B) the fractional Merger Ordinary Share interest to which such holder would otherwise be entitled. The term "Sales Price" shall mean, on any Trading Day, with respect to HoldCo ADSs, the closing sales price of HoldCo ADSs reported on the New York Stock Exchange, Inc. ("NYSE") Composite Tape on such day and, with respect to Merger Ordinary Shares, the closing middle market quotation of a HoldCo Ordinary Share as reported in the Daily Official List of the London Stock Exchange ("LSE") for such date. The term "Trading Day" shall mean any day on which securities are traded, with respect to HoldCo ADSs, on the NYSE, and with respect to HoldCo Ordinary Shares, on the LSE.

(f) Termination of Exchange Fund. Any portion of the Exchange Fund which remains undistributed to the stockholders of the Company for one (1) year after the Effective Time shall be delivered to HoldCo, upon demand, and any holders of Certificates who have not theretofore complied with this Article II shall thereafter look only to HoldCo (subject to abandoned property, escheat and other similar laws) as general creditors for payment of their claim for HoldCo ADSs, Merger Ordinary Shares, any cash in lieu of fractional HoldCo ADSs

and Merger Ordinary Shares and any dividends or distributions with respect to HoldCo ADSs and Merger Ordinary Shares. Neither HoldCo, ScottishPower nor the Surviving Corporation shall be liable to any holder of any Certificate for HoldCo ADSs or Merger Ordinary Shares (or dividends or distributions with respect to either), or cash payable in respect of fractional HoldCo ADSs or Merger Ordinary Shares, delivered to a public official pursuant to any applicable abandoned property, escheat or similar law.

(g) Lost Certificates. If any Certificate shall have been lost, stolen or destroyed, upon the making of an affidavit of that fact by the person claiming such Certificate to be lost, stolen or destroyed and, if required by HoldCo, the posting by such person of a bond in such reasonable amount as HoldCo may direct as indemnity against any claim that may be made against it with respect to such Certificate, the Exchange Agent will deliver in exchange for such lost, stolen or destroyed Certificate the applicable Merger Consideration with respect to the shares of Company Common Stock formerly represented thereby, any cash in lieu of fractional HoldCo ADSs or Merger Ordinary Shares, and unpaid dividends and distributions in respect of or on HoldCo ADSs or Merger Ordinary Shares deliverable in respect thereof, pursuant to this Agreement.

2.04 Withholding Rights. Each of the Surviving Corporation and HoldCo shall be entitled to deduct and withhold from the consideration otherwise payable pursuant to this Agreement to any holder of shares of Company Common Stock such amounts as it is required to deduct and withhold with respect to the making of such payment under the Code, or any provision of state, local or foreign tax law, including the tax laws of the United Kingdom. To the extent that amounts are so withheld by the Surviving Corporation or HoldCo, as the case may be, such withheld amounts shall be treated for all purposes of this Agreement as having been paid to the holder of the shares of Company Common Stock in respect of which such deduction and withholding was made by the Surviving Corporation or HoldCo, as the case may be.

ARTICLE III
REPRESENTATIONS AND WARRANTIES OF THE COMPANY

The Company represents and warrants to HoldCo, ScottishPower, the Partnership and Merger Sub, as of December 6, 1998 (except for the representations and warranties contained in Sections 3.03 and 3.04, which are made as of the date hereof), as follows:

3.01 Organization and Qualification. (a) Each of the Company and its Subsidiaries is duly organized, validly existing and in good standing (with respect to jurisdictions which recognize the concept of good standing) under the laws of its jurisdiction of organization and has full corporate or partnership, as the case may be, power and authority to conduct its business as and to the extent now conducted and to own, use and lease its assets and properties, except for such failures to be so organized, existing and in good standing (with respect to jurisdictions which recognize the concept of good standing) or to have such power and authority which, individually or in the aggregate, are not having and would not reasonably be expected to have a material adverse effect (as defined in Section 9.12) on the Company and its Subsidiaries

taken as a whole. Each of the Company and its Subsidiaries is duly qualified, licensed or admitted to do business and is in good standing (with respect to jurisdictions which recognize the concept of good standing) in each jurisdiction in which the ownership, use or leasing of its assets and properties, or the conduct or nature of its business, makes such qualification, licensing or admission necessary, except for such failures to be so qualified, licensed or admitted and in good standing (with respect to jurisdictions that recognize the concept of good standing) which, individually or in the aggregate, are not having and would not reasonably be expected to have a material adverse effect on the Company and its Subsidiaries taken as a whole. Section 3.01 of the letter dated December 6, 1998 and delivered to ScottishPower, the Partnership and Merger Sub by the Company on such date (the "Company Disclosure Letter") sets forth (i) the name and jurisdiction of organization of each Subsidiary of the Company and (x) with respect to Subsidiaries that are corporations, (a) such Subsidiary's authorized capital stock, (b) the number of issued and outstanding shares of such Subsidiary's capital stock and (c) the record owners of such Subsidiary's shares and, (y) with respect to Subsidiaries that are partnerships, the names and ownership interests of the partners thereof. The Company has previously delivered to ScottishPower correct and complete copies of the certificate or articles of incorporation and bylaws (or other comparable charter documents) of the Company and its Subsidiaries.

(b) Section 3.01 of the Company Disclosure Letter sets forth a description as of December 6, 1998, of all Company Joint Ventures, including (i) the name of each such entity and the Company's interest therein, and (ii) a brief description of the principal line or lines of business conducted by each such entity. For purposes of this Agreement:

(i) "Joint Venture" of a person or entity shall mean any corporation or other entity (including partnerships and other business associations) that is not a Subsidiary of such person or entity, in which such person or one or more of its Subsidiaries owns directly or indirectly an equity interest, other than equity interests which are less than 5% of each class of the outstanding voting securities or equity interests of any such entity;

(ii) "Company Joint Venture" shall mean any Joint Venture of the Company or any of its Subsidiaries; and

(iii) "Scottish Power Joint Venture" shall mean any Joint Venture of ScottishPower, HoldCo or any of their respective Subsidiaries.

(c) Except for interests in the Subsidiaries of the Company, the Company Joint Ventures and as disclosed in the Company SEC Reports (as defined in Section 3.05) filed prior to December 6, 1998 or Section 3.01 of the Company Disclosure Letter, the Company does not directly or indirectly own any equity or similar interest in, or any interest convertible into or exchangeable or exercisable for any equity or similar interest in, any material corporation, partnership, limited liability company, joint venture or other business association or entity (other than non-controlling investments in the ordinary course of business and corporate partnering, development, cooperative marketing and similar undertakings and arrangements entered into in the ordinary course of business).

3.02 Capital Stock. (a) The authorized capital stock of the Company consists of:

(i) 750 million shares of Company Common Stock, of which 297,335,056 shares were issued and outstanding as of November 30, 1998, and

(ii) 126,533 shares of 5% preferred stock, of which 126,533 were issued and outstanding as of November 30, 1998, 3.5 million shares of serial preferred stock, of which 288,499 were issued and outstanding as of November 30, 1998 and of which 2,065 shares were designated the 4.52% Series, 18,060 shares were designated the 7.00% Series, 5,932 shares were designated the 6.00% Series, 42,000 were designated the 5.00% Series, 65,960 were designated the 5.40% Series, 69,890 were designated the 4.72% Series, and 84,592 were designated the 4.56% Series, respectively; and 16 million shares of no par serial preferred stock, of which 2,744,438 were issued and outstanding as of November 30, 1998 and of which 381,220 shares were designated the $1.28 Series, 420,116 shares were designated the $1.18 Series, 193,102 shares were designated the $1.16 Series, 1,000,000 shares were designated the $7.70 Series, and 750,000 shares were designated the $7.48 Series, respectively (collectively, the "Company Preferred Stock").

As of November 30, 1998, 28,817,971 shares of Company Common Stock were reserved or held for issuance under the PacifiCorp Stock Incentive Plan, the PacifiCorp Long Term Incentive Plan, the PacifiCorp K-Plus Employee Savings and Stock Ownership Plan and the PacifiCorp Dividend Reinvestment and Stock Purchase Plan. All of the issued and outstanding shares of Company Common Stock are, and all shares reserved for issuance will be, upon issuance in accordance with the terms specified in the instruments or agreements pursuant to which they are issuable, duly authorized, validly issued, fully paid and nonassessable. Except pursuant to this Agreement and except as described in Section 3.02 of the Company Disclosure Letter, as of December 6, 1998 there were no outstanding subscriptions, options, warrants, rights (including stock appreciation rights), preemptive rights or other contracts, commitments, understandings or arrangements, including any right of conversion or exchange under any outstanding security, instrument or agreement (together, "Options"), obligating the Company or any of its Subsidiaries to issue or sell any shares of capital stock of the Company or to grant, extend or enter into any Option with respect thereto.

(b) Except as disclosed in the Company SEC Reports filed prior to December 6, 1998 or Section 3.02 of the Company Disclosure Letter, all of the outstanding shares of capital stock of each Subsidiary of the Company are duly authorized, validly issued, fully paid and nonassessable and are owned, beneficially and of record, by the Company or a Subsidiary wholly owned, directly or indirectly, by the Company, free and clear of any liens, claims, mortgages, encumbrances, pledges, security interests, equities and charges of any kind (each a "Lien"), other than Liens or failures to so own which are immaterial. Each outstanding share of Company Preferred Stock, other than shares of the $1.28 Series, $1.18 Series and $1.16 Series of no par serial preferred stock, is entitled to one vote per share, voting together with the holders of Company Common Stock as a single class, on all matters generally submitted to the stockholders of the Company for a vote. Except as disclosed in the Company SEC Reports filed prior to December 6, 1998 or Section 3.02 of the Company Disclosure Letter, there are no (i) outstanding

Options obligating the Company or any of its Subsidiaries to issue or sell any shares of capital stock of any Subsidiary of the Company or to grant, extend or enter into any such Option or (ii) voting trusts, proxies or other commitments, understandings, restrictions or arrangements in favor of any person other than the Company or a Subsidiary wholly owned, directly or indirectly, by the Company with respect to the voting of or the right to participate in dividends or other earnings on any capital stock of any Subsidiary of the Company.

(c) None of the Subsidiaries of the Company or the Company Joint Ventures is a "public utility company," a "holding company," a "subsidiary company" or an "affiliate" of any public utility company within the meaning of Section 2(a)(5), 2(a)(7), 2(a)(8) or 2(a)(11) of the Public Utility Holding Company Act of 1935, as amended (the "1935 Act"), respectively.

(d) Except as disclosed in the Company SEC Reports filed prior to December 6, 1998 or Section 3.02 of the Company Disclosure Letter, there are no outstanding contractual obligations of the Company or any Subsidiary of the Company to repurchase, redeem or otherwise acquire any shares of Company Common Stock or any material capital stock of any Subsidiary of the Company or to provide any material amount of funds to, or make any material investment (in the form of a loan, capital contribution or otherwise) in, any Subsidiary of the Company or any other person.

3.03 Authority Relative to this Agreement. The Company has full corporate power and authority to enter into this Agreement, and, subject to obtaining the Company Stockholders' Approval (as defined in Section 6.03 (b)), to perform its obligations hereunder and to consummate the transactions contemplated hereby. The execution, delivery and performance of this Agreement by the Company and the consummation by the Company of the transactions contemplated hereby have been duly and validly approved by the Board of Directors of the Company, the Board of Directors of the Company has recommended approval of this Agreement by the stockholders of the Company and directed that this Agreement be submitted to the stockholders of the Company for their consideration, and no other corporate proceedings on the part of the Company or its stockholders are necessary to authorize the execution, delivery and performance of this Agreement by the Company and the consummation by the Company of the transactions contemplated hereby, other than obtaining the Company Stockholders' Approval. This Agreement has been duly and validly executed and delivered by the Company and constitutes a legal, valid and binding obligation of the Company enforceable against the Company in accordance with its terms, except as enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting the enforcement of creditors' rights generally and by general equitable principles (regardless of whether such enforceability is considered in a proceeding in equity or at law).

3.04 Non-Contravention; Approvals and Consents. (a) The execution and delivery of this Agreement by the Company do not, and the performance by the Company of its obligations hereunder and the consummation of the transactions contemplated hereby will not, conflict with, result in a violation or breach of, constitute (with or without notice or lapse of time or both) a default under, result in or give to any person any right of payment or reimbursement, termination, cancellation, modification or acceleration of, or result in the creation or imposition of any Lien upon any of the assets or properties of the Company or any of its Subsidiaries or any

of the Company Joint Ventures under, any of the terms, conditions or provisions of (i) the certificates or articles of incorporation or bylaws (or other comparable charter documents) of the Company or any of its Subsidiaries, or (ii) subject to the obtaining of the Company Stockholders' Approval and the taking of the actions described in Section 3.04(b), (x) any statute, law, rule, regulation or ordinance (together, "laws"), or any judgment, decree, order, writ, permit or license (together, "orders"), of any court, tribunal, arbitrator, authority, agency, commission, official or other instrumentality of the United States, any foreign country or any domestic or foreign state, county, city or other political subdivision (a "Governmental or Regulatory Authority") applicable to the Company or any of its Subsidiaries or any of the Company Joint Ventures or any of their respective assets or properties, or (y) any note, bond, mortgage, security agreement, indenture, license, franchise, permit, concession, contract, lease or other instrument, obligation or agreement of any kind (together, "Contracts") to which the Company or any of its Subsidiaries or any of the Company Joint Ventures is a party or by which the Company or any of its Subsidiaries or any of the Company Joint Ventures or any of their respective assets or properties is bound, excluding from the foregoing clauses (x) and (y) conflicts, violations, breaches, defaults, rights of payment and reimbursement, terminations, modifications, accelerations and creations and impositions of Liens which, individually or in the aggregate, would not reasonably be expected to have a material adverse effect on the Company and its Subsidiaries taken as a whole or on the ability of the Company to consummate the transactions contemplated by this Agreement.

(b) Except (i) for the filing of a premerger notification report by the Company under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, and the rules and regulations thereunder (the "HSR Act"), (ii) for the filing of the Proxy Statement (as defined in Section 3.09) and the Registration Statement (as defined in Section 4.09) with the Securities and Exchange Commission (the "SEC") pursuant to the Securities Exchange Act of 1934, as amended, and the rules and regulations thereunder (the "Exchange Act"), and the Securities Act of 1933, as amended, and the rules and regulations thereunder (the "Securities Act"), the declaration of the effectiveness of the Registration Statement by the SEC and filings with various state securities authorities that are required in connection with the transactions contemplated by this Agreement, (iii) for the filing of an application under Section 203 and any directly related Section of, or regulation under, the Power Act (as defined in Section 3.05(b)) for the sale or disposition of jurisdictional facilities of the Company; (iv) for the filing of the Articles of Merger and other appropriate merger documents required by the BCA with the Secretary of State and appropriate documents with the relevant authorities of other states in which the Constituent Corporations are qualified to do business; and (v) as disclosed in Section 3.04 of the Company Disclosure Letter, no consent, approval or action of, filing with or notice to any Governmental or Regulatory Authority or other public or private third party is necessary or required under any of the terms, conditions or provisions of any law or order of any Governmental or Regulatory Authority or any Contract to which the Company or any of its Subsidiaries or any of the Company Joint Ventures is a party or by which the Company or any of its Subsidiaries or any of the Company Joint Ventures or any of their respective assets or properties is bound for the execution and delivery of this Agreement by the Company, the performance by the Company of its obligations hereunder or the consummation of the transactions contemplated hereby, other than such consents, approvals, actions, filings and notices which the failure to make or obtain, as the case may be, individually or in the aggregate, would not reasonably be expected to have a

material adverse effect on the Company and its Subsidiaries taken as a whole or on the ability of the Company to consummate the transactions contemplated by this Agreement.

3.05 SEC Reports, Financial Statements and Utility Reports. (a) The Company has delivered to ScottishPower a true and complete copy of each form, report, schedule, registration statement, registration exemption, if applicable, definitive proxy statement and other document (together with all amendments thereof and supplements thereto) filed by the Company or any of its Subsidiaries with the SEC since December 31, 1995 (as such documents have since the time of their filing been amended or supplemented, the "Company SEC Reports"), which are all the documents (other than preliminary materials) that the Company and its Subsidiaries were required to file with the SEC since such date. As of their respective dates, the Company SEC Reports (i) complied as to form in all material respects with the requirements of the Securities Act or the Exchange Act, if applicable, as the case may be, and (ii) did not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading. The audited consolidated financial statements and unaudited interim consolidated financial statements (including, in each case, the notes, if any, thereto) included in the Company SEC Reports (the "Company Financial Statements") complied as to form in all material respects with the published rules and regulations of the SEC with respect thereto, were prepared in accordance with U.S. generally accepted accounting principles applied on a consistent basis during the periods involved (except as may be indicated therein or in the notes thereto and except with respect to unaudited statements as permitted by Form 10-Q of the SEC) and fairly present (subject, in the case of the unaudited interim financial statements, to normal, recurring year-end audit adjustments (which are not expected to be, individually or in the aggregate, materially adverse to the Company and its Subsidiaries taken as a whole)) the consolidated financial position of the Company and its consolidated subsidiaries as at the respective dates thereof and the consolidated results of their operations and cash flows for the respective periods then ended. Except as set forth in Section 3.05 of the Company Disclosure Letter, each Subsidiary of the Company is treated as a consolidated subsidiary of the Company in the Company Financial Statements for all periods covered thereby.

(b) All material filings required to be made by the Company or any of its Subsidiaries since December 31, 1995, under the Federal Power Act (the "Power Act") and applicable state laws and regulations, have been filed with the Federal Energy Regulatory Commission (the "FERC"), the Department of Energy (the "DOE") or any appropriate state public utilities commission (including, without limitation, the state utility regulatory agencies of California, Idaho, Montana, Oregon, Utah, Washington and Wyoming), as the case may be, including all material written forms, statements, reports, agreements and all material documents, exhibits, amendments and supplements appertaining thereto, including but not limited to all material rates, tariffs, franchises, service agreements and related documents, complied, as of their respective dates, in all material respects with all applicable requirements of the appropriate statute and the rules and regulations thereunder.

3.06 Absence of Certain Changes or Events. Except as disclosed in the Company SEC Reports filed prior to December 6, 1998 or Section 3.06 of the Company Disclosure Letter, (a) between December 31, 1997 and December 6, 1998, there has not been any

change, event or development having, or that would reasonably be expected to have, individually or in the aggregate, a material adverse effect on the Company and its Subsidiaries taken as a whole (other than those changes, events or developments occurring as a result of general economic or financial conditions or which are not unique to the Company and its Subsidiaries but also affect other entities who participate or are engaged in the lines of business in which the Company and its Subsidiaries are engaged), and (b) between December 31, 1997 and December 6, 1998 (i) the Company, its Subsidiaries and the Company Joint Ventures have conducted their respective businesses only in the ordinary course substantially consistent with past practice and (ii) neither the Company nor any of its Subsidiaries nor any of the Company Joint Ventures has (x) acquired or agreed to acquire (by merging or consolidating with, or by purchasing a substantial equity interest in or a substantial portion of the assets of, or by any other manner) any business or any corporation, partnership, association or other business organization or division thereof for a purchase price (including the amount of any indebtedness assumed in connection therewith) of $25 million or more in any one transaction or (y) sold, leased or otherwise disposed of any of its assets or properties (or agreed to do so) other than dispositions in the ordinary course of business consistent with past practice or having a net book value of $25 million or less in any one transaction.

3.07 Absence of Undisclosed Liabilities. Except for matters reflected or reserved against in the balance sheet for the period ended December 31, 1997 included in the Company Financial Statements or as disclosed in the Company SEC Reports filed prior to December 6, 1998 or in Section 3.07 of the Company Disclosure Letter, neither the Company nor any of its Subsidiaries had at such date, or has incurred since such date, any liabilities or obligations (whether absolute, accrued, contingent, fixed or otherwise, or whether due or to become due) of any nature that would be required by U.S. generally accepted accounting principles to be reflected on a consolidated balance sheet of the Company and its consolidated subsidiaries (including the notes thereto), except liabilities or obligations (i) which were incurred in the ordinary course of business consistent with past practice or (ii) which are not having, and would not reasonably be expected to have, individually or in the aggregate, a material adverse effect on the Company and its Subsidiaries taken as a whole.

3.08 Legal Proceedings. Except as disclosed in the Company SEC Reports filed prior to December 6, 1998 or in Section 3.08 of the Company Disclosure Letter and except for environmental matters which are governed by Section 3.15, (i) there are no actions, suits, arbitrations or proceedings pending or, to the knowledge of the Company, threatened against, nor to the knowledge of the Company are there any Governmental or Regulatory Authority investigations or audits pending or threatened against, the Company or any of its Subsidiaries or any of the Company Joint Ventures or any of their respective assets and properties which, individually or in the aggregate, would reasonably be expected to have a material adverse effect on the Company and its Subsidiaries taken as a whole or on the ability of the Company to consummate the transactions contemplated by this Agreement, and (ii) neither the Company nor any of its Subsidiaries is subject to any order of any Governmental or Regulatory Authority which, individually or in the aggregate, is having or would reasonably be expected to have a material adverse effect on the Company and its Subsidiaries taken as a whole or on the ability of the Company to consummate the transactions contemplated by this Agreement.

3.09 Information Supplied. (a) The proxy statement relating to the Company Stockholders' Meeting (as defined in Section 6.03(b)), as amended or supplemented from time to time (as so amended and supplemented, the "Proxy Statement"), and any other documents to be filed by the Company with the SEC (including, without limitation, under the 1935 Act) in connection with the Merger and the other transactions contemplated hereby will (in the case of the Proxy Statement and any such other documents filed with the SEC under the Exchange Act or the Securities Act), comply as to form in all material respects with the requirements of the Exchange Act and the Securities Act, respectively, and will not, on the date of its filing or, in the case of the Proxy Statement, at the date it is mailed to stockholders of the Company and at the time of the Company Stockholders' Meeting, contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they are made, not misleading, except that no representation is made by the Company with respect to information supplied in writing by or on behalf of HoldCo, ScottishPower, the Partnership or Merger Sub expressly for inclusion therein and information incorporated by reference therein from documents filed by HoldCo, ScottishPower or any of their respective Subsidiaries with the SEC.

(b) The information supplied or to be supplied by the Company for inclusion in any filing by HoldCo or ScottishPower with the LSE in respect of the Merger (including, without limitation, the Class 1 circular to be issued to shareholders of ScottishPower (the "Circular"), and the listing particulars under Part IV of the Financial Services Act 1986 of the United Kingdom (the "FSA") relating to HoldCo Ordinary Shares (the "Listing Particulars") and the Scheme Document (together with any amendments or supplements thereto, the "ScottishPower Disclosure Documents") will, at all relevant times, include all information relating to the Company, and information which is within the knowledge of each of the directors of the Company (or which it would be reasonable for them to obtain by making inquiries), which, in each case, is required to enable the ScottishPower Disclosure Documents and the parties hereto to comply in all material respects with all United Kingdom statutory and other legal and regulatory provisions (including, without limitation, the Companies Act (as defined in Section 4.02(a), the FSA and the rules and regulations made thereunder, and the rules and requirements of the LSE) and all such information contained in such documents will be substantially in accordance with the facts and will not omit anything material likely to affect the import of such information.

(c) Notwithstanding the foregoing provisions of this Section 3.09, no representation or warranty is made by the Company with respect to statements made or incorporated by reference in the Registration Statement, the Proxy Statement or the ScottishPower Disclosure Documents based on information supplied by HoldCo, ScottishPower or the Partnership expressly for inclusion or incorporation by reference therein or based on information which is not incorporated by reference in such documents but should have been disclosed pursuant to Section 4.09.

3.10 Permits; Compliance with Laws and Orders. The Company, its Subsidiaries and the Company Joint Ventures hold all permits, licenses, franchises, variances, exemptions, orders and approvals of all Governmental and Regulatory Authorities (other than

environmental permits which are governed by Section 3.15) necessary for the lawful conduct of their respective businesses (the "Company Permits"), except for failures to hold such Company Permits which, individually or in the aggregate, are not having and would not reasonably be expected to have a material adverse effect on the Company and its Subsidiaries taken as a whole. The Company, its Subsidiaries and the Company Joint Ventures are in compliance with the terms of the Company Permits, except failures so to comply which, individually or in the aggregate, are not having and would not reasonably be expected to have a material adverse effect on the Company and its Subsidiaries taken as a whole. Except as disclosed in the Company SEC Reports filed prior to December 6, 1998 or Section 3.10 of the Company Disclosure Letter, the Company, its Subsidiaries and the Company Joint Ventures are not in violation of or default under any law or order of any Governmental or Regulatory Authority, except for such violations or defaults which, individually or in the aggregate, are not having and would not reasonably be expected to have a material adverse effect on the Company and its Subsidiaries taken as a whole.

3.11 Compliance with Agreements. Except as disclosed in the Company SEC Reports filed prior to December 6, 1998 or Section 3.11 of the Company Disclosure Letter, neither the Company nor any of its Subsidiaries nor any of the Company Joint Ventures nor, to the knowledge of the Company, any other party thereto is in breach or violation of, or in default in the performance or observance of any term or provision of, and no event has occurred which, with notice or lapse of time or both, would reasonably be expected to result in a default under, (i) the certificates or articles of incorporation or bylaws (or other comparable charter documents) of the Company or any of its Subsidiaries or (ii) any Contract to which the Company or any of its Subsidiaries or any of the Company Joint Ventures is a party or by which the Company or any of its Subsidiaries, or any of the Company Joint Ventures or any of their respective assets or properties is bound, except in the case of clause (ii) for breaches, violations and defaults which, individually or in the aggregate, are not having and would not reasonably be expected to have a material adverse effect on the Company and its Subsidiaries taken as a whole.

3.12 Taxes. Except as disclosed in the Company SEC Reports filed prior to December 6, 1998 or Section 3.12 of the Company Disclosure Letter:

(a) Each of the Company and its Subsidiaries has filed all material tax returns and reports required to be filed by it, or requests for extensions to file such returns or reports have been timely filed or granted and have not expired, and all tax returns and reports are complete and accurate in all respects, except to the extent that such failures to either file, to have extensions granted that remain in effect or to file returns complete and accurate in all respects, as applicable, would not reasonably be expected to have, individually or in the aggregate, a material adverse effect on the Company and its Subsidiaries taken as a whole. The Company and each of its Subsidiaries has paid (or the Company has paid on its behalf) all taxes shown as due on such tax returns and reports. The most recent financial statements contained in the Company SEC Reports reflect an adequate reserve for all taxes payable by the Company and its Subsidiaries for all taxable periods and portions thereof accrued through the date of such financial statements, and no deficiencies for any taxes have been proposed, asserted or assessed against the Company or any of its Subsidiaries that are not adequately reserved for, except for inadequately reserved taxes and inadequately reserved deficiencies that would not reasonably be expected to, individually or in the aggregate, have a material adverse effect on the Company and its

Subsidiaries taken as a whole. No requests for waivers of the time to assess any taxes against the Company or any of its Subsidiaries have been granted or are pending, except for requests with respect to such taxes that have been adequately reserved for in the most recent financial statements contained in the Company SEC Reports. or, to the extent not adequately reserved, the assessment of which would not reasonably be expected to have, individually or in the aggregate, a material adverse effect on the Company and its Subsidiaries taken as a whole.

(b) Neither the Company nor any of its Subsidiaries has taken any action or has any knowledge of any fact or circumstance that is reasonably likely to prevent the Merger from qualifying as a tax-free reorganization within the meaning of Code Section 368(a).

(c) Neither the Company nor any of its Subsidiaries has filed a consent under Code Section 341(f) concerning collapsible corporations. neither the Company nor any of its Subsidiaries has made any payments, is obligated to make any payment, or is a party to any agreement that under certain circumstances could obligate it to make any payments that will not be deductible under Code Section 280G.

(d) Each of the Company and its Subsidiaries has disclosed on its federal income tax returns all positions taken therein that could give rise to a substantial understatement of United States federal income tax within the meaning of Code Section 6662.

(e) Neither the Company nor any of its Subsidiaries is a party to any tax allocation or sharing agreement. Neither the Company nor any of its Subsidiaries (i) has been a member of an affiliated group filing a consolidated federal income tax return (other than a group the common parent of which was the Company) or (ii) has any material liability for the taxes of any person (other than any of the Company and its Subsidiaries) under United States Treasury Regulation Section 1.1502-6 (or any similar provision or state, local, or foreign law), as a transferee or successor, by contract, or otherwise.

(f) As used in this Section 3.12 and in Section 4.12, "taxes" shall include all federal. state, local and foreign income. franchise. gross receipts, property, sales. use. excise. alternative-minimum. estimated and other taxes and duties of any jurisdiction, including obligations for withholding taxes from payments due or made to any other person and any interest, penalties or additions to tax.

3.13 Employee Benefit Plans: ERISA. (a) Except as disclosed in the Company SEC Reports filed prior to December 6. 1998 or Section 3.13 of the Company Disclosure Letter or as would not reasonably be expected to have a material adverse effect on the Company and its Subsidiaries taken as a whole, (i) all Company Employee Benefit Plans (as defined below) are in compliance with all applicable requirements of law, including without limitation ERISA (as defined below) and the Code. and (ii) neither the Company nor any of its Subsidiaries has any liabilities or obligations with respect to any such Company Employee Benefit Plans, whether accrued, contingent or otherwise, nor to the knowledge of the Company are any such liabilities or obligations expected to be incurred. Except as specifically set forth in Section 3.13 of the Company Disclosure Letter, the execution of, and performance of the transactions contemplated in, this Agreement will not (either alone or upon the occurrence of any

additional or subsequent events) constitute an event under any Company Employee Benefit Plan that will or would reasonably be expected to result in any payment (whether of severance pay or otherwise), acceleration, forgiveness of indebtedness, vesting, distribution, increase in benefits or obligation to fund benefits with respect to any employee. The only severance agreements or severance policies applicable to the Company or any of its Subsidiaries are the agreements and policies specifically referred to in Section 3.13 of the Company Disclosure Letter.

(b) As used herein:

(i) "Company Employee Benefit Plan" means any Plan (other than any "multiemployer plan," as that term is defined in Section 4001 of ERISA) entered into, established, maintained, sponsored, contributed to or required to be contributed to by the Company or any of its Subsidiaries for the benefit of the current or former employees or directors of the Company or any of its Subsidiaries and existing on December 6, 1998 or at any time subsequent thereto and on or prior to the Effective Time and, in the case of a Plan which is subject to Part 3 of Title I of the Employee Retirement Income Security Act of 1974, as amended, and the rules and regulations thereunder ("ERISA"), Section 412 of the Code or Title IV of ERISA, at any time during the five-year period immediately preceding December 6, 1998; and

(ii) "Plan" means any employment, bonus, incentive compensation, deferred compensation, long term incentive, pension, profit sharing, retirement, stock purchase, stock option, stock ownership, stock appreciation rights, phantom stock, leave of absence, layoff, vacation, day or dependent care, legal services, cafeteria, life, health, medical, accident, disability, severance, separation, termination, change of control or other benefit plan, agreement, practice, policy, program, scheme or arrangement, whether written or oral, and whether applicable to only one individual or a group of individuals, including, but not limited to any "employee benefit plan" within the meaning of Section 3(3) of ERISA.

(iii) "ERISA Affiliate" means any person, who on or before the Effective Time, is under common control with the Company within the meaning of Section 414 of the Code.

(c) Complete and correct copies of the following documents have been made available to ScottishPower, as of December 6, 1998: (i) all material Company Employee Benefit Plans and any related trust agreements or related insurance contracts and pro forma option agreements, (ii) the most current summary plan descriptions of each Company Employee Benefit Plan subject to the requirement to give a summary plan description under ERISA, (iii) the most recent Form 5500 and Schedules thereto for each Company Employee Benefit Plan subject to such reporting, (iv) the most recent determination of the Internal Revenue Service with respect to the qualified status of each Company Employee Benefit Plan that is intended to qualify under Section 401(a) of the Code, (v) the most recent accountings with respect to each Company Employee Benefit Plan funded through a trust, (vi) the most recent actuarial report of the qualified actuary of each Company Employee Benefit Plan with respect to which actuarial valuations are conducted.

(d) Except as disclosed in the Company SEC Reports filed prior to December 6, 1998 or Section 3.13 of the Company Disclosure Letter, neither the Company nor any Subsidiary maintains or is obligated to provide benefits under any life, medical or health Plan (other than as an incidental benefit under a Plan qualified under Section 401(a) of the Code) which provides benefits to retirees or other terminated employees other than benefit continuations rights under the Consolidated Omnibus Budget Reconciliation Act of 1985, as amended.

(e) Except as set forth in Section 3.13 of the Company Disclosure Letter, each Company Employee Benefit Plan covers only employees who are employed by the Company or a Subsidiary (or former employees or beneficiaries with respect to service with the Company or a Subsidiary), so that the transactions contemplated by this Agreement will require no spin-off of assets and liabilities or other division or transfer of rights with respect to any such plan.

(f) Except as disclosed in the Company SEC Reports filed prior to December 6, 1998 or Section 3.13 of the Company Disclosure Letter, neither the Company, any Subsidiary, any ERISA Affiliate nor any other corporation or organization controlled by or under common control with any of the foregoing within the meaning of Section 4001 of ERISA has at any time during the five (5) year period preceding December 6, 1998 contributed to any "multiemployer plan", as that term is defined in Section 4001 of ERISA. With respect to each "multiemployer plan", as defined above, in which the Company, any Subsidiary or any ERISA Affiliate participates or has participated, (i) neither the Company, any Subsidiary nor any ERISA Affiliate has incurred, any material withdrawal liability, (ii) neither the Company, any Subsidiary nor any ERISA Affiliate has received any notice that (A) any such plan is being reorganized in a manner that will result, or would reasonably be expected to result, in material liability, (B) increased contributions of a material amount may be required to avoid a reduction in plan benefits or the imposition of an excise tax, or (C) any such plan is, or would reasonably be expected to become, insolvent, and (iii) to the knowledge of the Company, there are no PBGC (as defined below) proceedings against any such plan.

(g) Except as disclosed in the Company SEC Reports filed prior to December 6, 1998 or Section 3.13 of the Company Disclosure Letter, no event has occurred, and there exists no condition or set of circumstances in connection with any Company Employee Benefit Plan, under which the Company or any Subsidiary, directly or indirectly (through any indemnification agreement or otherwise), could reasonably be expected to be subject to any risk of material liability under Section 409 of ERISA, Section 502(i) of ERISA, Title IV of ERISA or Section 4975 of the Code.

(h) No transaction contemplated by this Agreement will result in liability to the Pension Benefit Guaranty Corporation ("PBGC") under Section 302(c)(11), 4062, 4063, 4064 or 4069 of ERISA, or otherwise, with respect to the Company, any Subsidiary, HoldCo, ScottishPower or any corporation or organization controlled by or under common control with any of the foregoing within the meaning of Section 4001 of ERISA, and, to the knowledge of the Company, no event or condition exists or has existed which would reasonably be expected to result in any material liability to the PBGC with respect to HoldCo, ScottishPower, the Company, any Subsidiary or any such corporation or organization. Except as set forth in Section

3.13 of the Company Disclosure Schedule, no "reportable event" within the meaning of Section 4043 of ERISA has occurred with respect to any Company Employee Benefit Plan that is a defined benefit plan under Section 3(35) of ERISA other than "reportable events" as to which the requirement of notice to the PBGC within thirty days has been waived.

(i) Except as set forth in Section 3.13 of the Company Disclosure Schedule, no employer securities, employer real property or other employer property is included in the assets of any Company Employee Benefit Plan.

(j) No stock appreciation rights are outstanding under the Company Stock Incentive Plan or any other plan or arrangement maintained by the Company or any affiliate of the Company.

3.14 Labor Matters. (a) Except as set forth in Section 3.14 of the Company Disclosure Letter, neither the Company nor any of its Subsidiaries is a party to any collective bargaining agreement or other labor agreement with any union or labor organization. Except as disclosed in the Company SEC Reports filed prior to December 6, 1998 or in Section 3.14 of the Company Disclosure Letter, there are no disputes pending or, to the knowledge of the Company, threatened between the Company or any of its Subsidiaries or any of the Company Joint Ventures and any trade union or other representatives of its employees, except as would not, individually or in the aggregate, reasonably be expected to have a material adverse effect on the Company and its Subsidiaries taken as a whole, and, to the knowledge of the Company, except as set forth in Section 3.14 of the Company Disclosure Letter, there are no material organizational efforts presently being made involving any of the now unorganized employees of the Company or any of its Subsidiaries or any of the Company Joint Ventures. Since December 31, 1995, there has been no work stoppage, or strike by employees of the Company or any of its Subsidiaries or any of the Company Joint Ventures except as would not, individually or in the aggregate, reasonably be expected to have a material adverse effect on the Company and its Subsidiaries taken as a whole.

(b) To the knowledge of the Company, neither the Company nor any of its Subsidiaries nor any of the Company Joint Ventures is in material violation of any labor laws in any country (or political subdivision thereof) in which they transact business except for such violations as would not, individually or in the aggregate, reasonably be expected to have a material adverse effect on the Company and its Subsidiaries taken as a whole.

3.15 Environmental Matters. Except as disclosed in the Company SEC Reports filed prior to December 6, 1998 or in Section 3.15 of the Company Disclosure Letter and except as would not, individually or in the aggregate, reasonably be expected to have a material adverse effect on the Company and its Subsidiaries taken as a whole:

(a) (i) Each of the Company, its Subsidiaries and the Company Joint Ventures is in compliance with all applicable Environmental Laws (as hereinafter defined); and

(ii) Neither the Company nor any of its Subsidiaries nor any of the Company Joint Ventures has received any written communication from any person or

Governmental or Regulatory Authority that alleges that the Company or any of its Subsidiaries or any of the Company Joint Ventures is not in such compliance with applicable Environmental Laws.

(b) Each of the Company, its Subsidiaries and the Company Joint Ventures has obtained all environmental, health and safety permits and governmental authorizations (collectively, the "Environmental Permits") necessary for the construction of its facilities and the conduct of its operations, as applicable, and all such Environmental Permits are in good standing or, where applicable, a renewal application has been timely filed and is pending agency approval, and the Company, its Subsidiaries and the Company Joint Ventures are in compliance with all terms and conditions of the Environmental Permits.

(c) There is no Environmental Claim (as hereinafter defined) pending

(i) against the Company or any of its Subsidiaries or any of the Company Joint Ventures;

(ii) to the knowledge of the Company, against any person or entity whose liability for any such Environmental Claim the Company or any of its Subsidiaries or any of the Company Joint Ventures has or may have retained or assumed either contractually or by operation of law; or

(iii) against any real or personal property or operations which the Company or any of its Subsidiaries or any of the Company Joint Ventures owns, leases or manages, in whole or in part.

(d) To the knowledge of the Company, there have not been any Releases (as hereinafter defined) of any Hazardous Material (as hereinafter defined) that would be reasonably likely to form the basis of any material Environmental Claim against the Company or any of its Subsidiaries or any of the Company Joint Ventures, or against any person or entity whose liability for any Environmental Claim the Company or any of its Subsidiaries or any of the Company Joint Ventures has or may have been retained or assumed either contractually or by operation of law.

(e) To the knowledge of the Company, with respect to any predecessor of the Company or any of its Subsidiaries, there is no Environmental Claim pending or threatened in writing, and there has been no Release of Hazardous Materials that would be reasonably likely to form the basis of any Environmental Claim.

(f) There are no material facts specific to the Company that have not been disclosed to ScottishPower which the Company reasonably believes are likely to form the basis of a Environmental Claim against the Company or any of its Subsidiaries or any of the Company Joint Ventures arising from (x) current environmental remediation or mining reclamation costs of the Company, its Subsidiaries and the Company Joint Ventures or such remediation or reclamation costs known to be required in the future, or (y) any other environmental matter affecting the Company or its Subsidiaries or any of the Company Joint Ventures.

(g) As used in this Section 3.15:

(i) "Environmental Claims" means any and all administrative, regulatory or judicial actions, suits, demands, demand letters, directives, claims, liens, investigations, proceedings or written notices of noncompliance, liability or violation by any person or entity (including any Governmental or Regulatory Authority) alleging potential liability (including, without limitation, potential responsibility or liability for enforcement, investigatory costs, cleanup costs, governmental response costs, removal costs, remedial costs, natural resources damages, property damages, personal injuries or penalties) arising out of, based on or resulting from

(A) the presence, or Release or threatened Release into the environment, of any Hazardous Materials at any location, whether or not owned, operated, leased or managed by the Company or any of its Subsidiaries or any of the Company Joint Ventures; or

(B) circumstances forming the basis of any violation, or alleged violation, of any Environmental Law; or

(C) any and all claims by any third party seeking damages, contribution, indemnification, cost recovery, compensation or injunctive relief resulting from the presence or Release of any Hazardous Materials;

(ii) "Environmental Laws" means all Federal, state and local laws, rules and regulations relating to pollution, the environment (including, without limitation, ambient air, surface water, groundwater, land surface or subsurface strata) or protection of human health as it relates to the environment including, without limitation, laws and regulations relating to Releases or threatened Releases of Hazardous Materials, or otherwise relating to the manufacture, processing, distribution, use, treatment, storage, disposal, transport or handling of Hazardous Materials;

(iii) "Hazardous Materials" means (a) any petroleum or petroleum products, radioactive materials, asbestos in any form that is or could become friable, urea formaldehyde foam insulation, and transformers or other equipment that contain dielectric fluid containing polychlorinated biphenyls; and (b) any chemicals, materials or substances which are now defined as or included in the definition of "hazardous substances", "hazardous wastes", "hazardous materials", "extremely hazardous wastes", "restricted hazardous wastes", "toxic substances", "toxic pollutants", or words of similar import, under any Environmental Law; and (c) any other chemical, material, substance or waste, exposure to which is now prohibited, limited or regulated under any Environmental Law in a jurisdiction in which the Company or any of its Subsidiaries or any of the Company Joint Ventures operates or any jurisdiction which has received such chemical, material, substance or waste from the Company or its Subsidiaries; and

(iv) "Release" means any release, spill, emission, leaking, injection, deposit, disposal, discharge, dispersal, leaching or migration into the atmosphere, soil, surface water, groundwater or property.

3.16 Intellectual Property Rights. The Company and its Subsidiaries have all right, title and interest in or a valid and binding license to use, all Intellectual Property (as defined below) individually or in the aggregate material to the conduct of the businesses of the Company and its Subsidiaries taken as a whole. Neither the Company nor any Subsidiary of the Company is in default (or with the giving of notice or lapse of time or both, would be in default) under any license to use such Intellectual Property and, to the knowledge of the Company, such Intellectual Property is not being infringed by any third party, and neither the Company nor any Subsidiary of the Company is infringing any Intellectual Property of any third party, except for such defaults and infringements which, individually or in the aggregate, are not having and would not reasonably be expected to have a material adverse effect on the Company and its Subsidiaries taken as a whole. For purposes of this Agreement, "Intellectual Property" means patents and patent rights, trademarks and trademark rights, trade names and trade name rights, service marks and service mark rights, service names and service name rights, copyrights and copyright rights and other proprietary intellectual property rights and all pending applications for and registrations of any of the foregoing.

3.17 Regulation as a Utility. (a) The Company is not regulated as a public utility by any state other than the States of California, Idaho, Montana, Oregon, Utah, Washington and Wyoming. Section 3.17 of the Company Disclosure Letter lists each Subsidiary of the Company which is a public utility or is otherwise engaged in the regulated supply (including generation, transmission or distribution) of electricity, natural gas and/or telecommunications. Except as set forth in Section 3.17 of the Company Disclosure Letter, neither the Company nor any "subsidiary company" or "affiliate" of the Company is subject to regulation as a public utility or public service company (or similar designation) by any state in the United States or any foreign country. The Company is not a public utility holding company under the 1935 Act.

(b) As used in this Section 3.17, the terms "subsidiary company" and "affiliate" shall have the respective meanings ascribed to them in the 1935 Act.

3.18 Insurance. Except as set forth in Section 3.18 of the Company Disclosure Letter, each of the Company and its Subsidiaries is, and has been continuously since January 1, 1994, insured with financially responsible insurers in such amounts and against such risks and losses as are customary in all material respects for companies conducting the business conducted by the Company and its Subsidiaries during such time period. Except as set forth in Section 3.18 of the Company Disclosure Letter, neither the Company nor any of its Subsidiaries has received any notice of cancellation or termination with respect to any material insurance policy of the Company or any of its Subsidiaries. The material insurance policies of the Company and each of its Subsidiaries are valid and enforceable policies.

3.19 Vote Required. Assuming the accuracy of the representation and warranty contained in Section 4.19, the affirmative vote of the holders of record of at least (i) a majority of voting power of the outstanding shares of Company Common Stock and Company Preferred Stock voting together and (ii) a majority of the voting power of the Company Preferred Stock voting separately from the Company Common Stock as a single class with respect to the approval of this Agreement are the only votes of the holders of any class or series of the capital

stock of the Company or its Subsidiaries required to approve this Agreement and approve the Merger and the other transactions contemplated hereby.

3.20 [Intentionally Omitted]

3.21 Ownership of HoldCo or ScottishPower Stock. Neither the Company nor any of its Subsidiaries beneficially owns any ScottishPower Ordinary Shares, ScottishPower ADSs, HoldCo Ordinary Shares or HoldCo ADSs.

3.22 Article VII of the Company's Articles of Incorporation and Sections 60.825-60.845 of the BCA Not Applicable. The Company has taken all necessary actions so that neither the provisions of Article VII of the Company's Articles of Incorporation nor the provisions of Sections 60.825-60.845 of the BCA (i.e., affiliated transactions and fair price provisions) will, before the termination of this Agreement, apply to this Agreement or the Merger or the other transactions contemplated hereby.

3.23 Certain Contracts. Except as set forth in Section 3.23 of the Company Disclosure Letter, neither the Company nor any of its Subsidiaries or Joint Ventures is a party to, or bound by, any Contract containing any provision or covenant prohibiting or materially limiting the ability of the Company or any Company Subsidiary to engage in any business activity or compete with any person.

3.24 Year 2000. The Company and its Subsidiaries have put into effect practices and programs which the Company reasonably believes will enable all material software, hardware and equipment (including microprocessors) that is owned or utilized by the Company or any of its Subsidiaries in the operations of its or their respective business to be capable, by December 31, 1999, of accounting for all calculations using a century and date sensitive algorithm for the year 2000 and the fact that the year 2000 is a leap year and to otherwise continue to function without any material interruption caused by the occurrence of the year 2000.

3.25 Joint Venture Representations. Each representation or warranty made by the Company in this Article III relating to a Company Joint Venture that is neither operated nor managed by the Company or a Subsidiary of the Company shall be deemed to be made only to the Company's knowledge.

ARTICLE IV
REPRESENTATIONS AND WARRANTIES OF HOLDCO, SCOTTISHPOWER AND THE PARTNERSHIP

ScottishPower and HoldCo (each on behalf of itself and on behalf of Merger Sub) and the Partnership represent and warrant to the Company as follows (which representations and warranties (i) in respect of ScottishPower and its Subsidiaries are made as of December 6, 1998 (except for the representations and warranties contained in Sections 4.03 and 4.04, which are made as of the date hereof), (ii) in respect of HoldCo and its Subsidiaries are made as of the date of this Agreement and (iii) of ScottishPower and HoldCo on behalf of Merger Sub shall only be

true and correct as of the Closing Date), it being agreed that HoldCo and ScottishPower shall not be in breach or deemed to be in breach of any representation or warranty contained in this Article IV by virtue of the fact that any Scheme Consent (as defined in Section 9.13(k)) has not been obtained by the date of this Agreement:

4.01 Organization and Qualification. (a) Each of HoldCo, ScottishPower and their respective Subsidiaries (other than the Partnership) is a corporation duly incorporated, validly existing and in good standing (with respect to jurisdictions which recognize the concept of good standing) under the laws of its jurisdiction of incorporation and has full corporate power and authority to conduct its business as and to the extent now conducted and to own, use and lease its assets and properties, except for such failures to be so incorporated, existing and in good standing (with respect to jurisdictions which recognize the concept of good standing) or to have such power and authority which, individually or in the aggregate, are not having and would not reasonably be expected to have a material adverse effect on HoldCo, ScottishPower and their respective Subsidiaries taken as a whole. The Partnership is a general partnership validly existing under the laws of the State of Nevada. Each of the Partnership and Merger Sub was formed solely for the purpose of engaging in the transactions contemplated by this Agreement (other than, with respect to the Partnership, in connection with the investment of the initial partnership capital pursuant to or in accordance with the Partnership Agreement, dated December 3, 1998, by and between UKSub 1 and UKSub 2 (the "Partnership Agreement")), has engaged in no other business activities and has conducted its operations only as contemplated hereby (or, with respect to the Partnership, as contemplated by the Partnership Agreement). HoldCo was formed solely for the purpose contemplated by the Scheme of Arrangement and this Agreement and has conducted its operations only as contemplated by the Scheme of Arrangement and this Agreement. Except as disclosed in Section 4.01 of the ScottishPower Disclosure Letter (as defined below), each of UKSub 1 and UKSub 2 was formed solely for the purpose of engaging in the transactions contemplated by this Agreement, has engaged in no other business activities and has conducted its operations only as contemplated hereby. Each of ScottishPower, HoldCo and their respective Subsidiaries is duly qualified, licensed or admitted to do business and is in good standing (with respect to jurisdictions which recognize the concept of good standing) in each jurisdiction in which the ownership, use or leasing of its assets and properties, or the conduct or nature of its business, makes such qualification, licensing, admission or good standing necessary, except for such failures to be so qualified, licensed or admitted and in good standing (with respect to jurisdictions which recognize the concept of good standing) which, individually or in the aggregate, are not having and would not reasonably be expected to have a material adverse effect on HoldCo, ScottishPower and their respective Subsidiaries taken as a whole. Section 4.01 of the letter dated December 6, 1998 and delivered by ScottishPower and Merger Sub to the Company on such date (the "ScottishPower Disclosure Letter") sets forth (i) the name and jurisdiction of incorporation of each Subsidiary of ScottishPower, (ii) its authorized capital stock, (iii) the number of issued and outstanding shares of its capital stock and (iv) the record owners of such shares. ScottishPower has previously delivered to the Company correct and complete copies of the memorandum and articles of association and bylaws (or other comparable charter documents) of ScottishPower and each of its Subsidiaries, and the Partnership Agreement. As of the Scheme Date, the articles of association and bylaws (or other comparable charter documents) of HoldCo shall substantially reflect the principles set out in Schedule II, subject to amendments required to comply with applicable law

or the rules of the LSE and subject to such other amendments as ScottishPower may reasonably deem necessary or desirable, provided, that to the extent such other amendments deemed necessary or desirable by ScottishPower would materially adversely affect the benefits of the Merger for the holders of Company Common Stock, ScottishPower shall have received the prior written consent of the Company.

(b) Section 4.01 of the ScottishPower Disclosure Letter sets forth a description as of December 6, 1998, of all ScottishPower Joint Ventures, including (i) the name of each such party and ScottishPower's interest therein, and (ii) a brief description of the principal line or lines of business conducted by each such entity.

(c) Except for interests in the Subsidiaries of ScottishPower and HoldCo and as disclosed in Section 4.01 of the ScottishPower Disclosure Letter, neither HoldCo nor ScottishPower directly or indirectly owns any equity or similar interest in, or any interest convertible into or exchangeable or exercisable for any equity or similar interest in, (i) any material corporation, partnership, joint venture or other business association or entity (other than non-controlling investments in the ordinary course of business and corporate partnering, development, cooperative marketing and similar undertakings and arrangements entered into in the ordinary course of business) or (ii) any other business association or entity the effect of which is having or could reasonably be expected to have a material adverse effect on HoldCo, ScottishPower and their respective Subsidiaries taken as a whole.

4.02 Capital Stock. (a) The authorized share capital of ScottishPower consists solely of (i) 1,700,000,000 ScottishPower Ordinary Shares, of which 1,198,629,102 shares were issued as of November 30, 1998, and (ii) one Special Rights Non-Voting Redeemable Preference Share of £1 (the "Special Share") which was issued as of such date. The authorized share capital of HoldCo consists solely of (i) 50,000 HoldCo ordinary shares of £1 each (to be subdivided into HoldCo Ordinary Shares of 50p each prior to the Scheme Date), of which 2 were issued as of the date of this Agreement, and (ii) 49,998 non-voting redeemable ordinary shares of £1 each, all of which were issued as of the date of this Agreement, are held by ScottishPower and shall be redeemed by HoldCo prior to the Effective Time. Since November 30, 1998, except as disclosed in the ScottishPower SEC Reports filed prior to December 6, 1998, Section 4.02 of the ScottishPower Disclosure Letter or pursuant to the Scheme of Arrangement, there has been no change in the number of issued ScottishPower Ordinary Shares other than the issuance of ScottishPower Ordinary Shares pursuant to options or rights outstanding as of such date to subscribe or purchase ScottishPower Ordinary Shares, which options or rights are described in Section 4.02 of the ScottishPower Disclosure Letter. All of the issued ScottishPower Ordinary Shares and HoldCo Ordinary Shares are, and all Merger Ordinary Shares and all HoldCo Ordinary Shares to be issued to the ADR Depositary pursuant to Section 2.01 will be, upon issuance, duly authorized, validly issued and fully paid and voting, and no class of shares is entitled to preemptive rights, except as provided in Section 89 of the Companies Act of 1985 of the United Kingdom (the "Companies Act"). Except pursuant to this Agreement, the ScottishPower employee share schemes listed in Section 4.02 of the ScottishPower Disclosure Letter (the "ScottishPower Share Schemes"), the HoldCo employee share schemes established in connection with the Scheme of Arrangement to replace the ScottishPower Share Schemes and which are in all material respects similar to the ScottishPower

Share Schemes (the "HoldCo Share Schemes"), and except as disclosed in the ScottishPower SEC Reports filed prior to December 6, 1998 or Section 4.02 of the ScottishPower Disclosure Letter, as of December 6, 1998 there were no outstanding Options obligating HoldCo, ScottishPower or any of their respective Subsidiaries to issue or sell any capital or other shares of ScottishPower or HoldCo or to grant, extend or enter into any Option with respect thereto.

(b) Except as disclosed in the ScottishPower SEC Reports filed prior to December 6, 1998 or Section 4.02 of the ScottishPower Disclosure Letter, all of the outstanding shares of each Subsidiary of HoldCo and ScottishPower are duly authorized, validly issued, fully paid and nonassessable and are owned, beneficially and of record, by HoldCo or ScottishPower or a Subsidiary wholly owned, directly or indirectly, by HoldCo or ScottishPower, free and clear of any Liens. Immediately following the Scheme Date, all of the outstanding shares of ScottishPower will be duly authorized, validly issued, fully paid and nonassessable and owned, beneficially and of record, by HoldCo or its nominees. Except as disclosed in the ScottishPower SEC Reports filed prior to December 6, 1998 or Section 4.02 of the ScottishPower Disclosure Letter, and except for the Share Transfer, there are no (i) outstanding Options obligating HoldCo, ScottishPower or any of their respective Subsidiaries to issue or sell any shares of any Subsidiary of HoldCo or ScottishPower or to grant, extend or enter into any such Option or (ii) voting trusts, proxies or other commitments, understandings, restrictions or arrangements in favor of any person other than HoldCo or ScottishPower or a Subsidiary wholly owned, directly or indirectly, by HoldCo or ScottishPower with respect to the voting of or the right to participate in dividends or other earnings in respect of any shares of any Subsidiary of HoldCo or ScottishPower.

(c) Other than (i) as disclosed in the ScottishPower SEC Reports filed prior to December 6, 1998 or Section 4.02 of the ScottishPower Disclosure Letter, (ii) the right of Holdco to redeem the 49,998 non-voting redeemable shares held by ScottishPower and referred to in Section 4.02(a), (iii) the right of the holder of the ScottishPower Special Share to require ScottishPower to redeem the ScottishPower Special Share pursuant to the Articles of Association of ScottishPower or, following the Scheme Date, the right of the holder of the HoldCo Special Share (as defined in Schedule II) to require HoldCo to redeem the HoldCo Special Share pursuant to the Articles of Association of HoldCo, and (iv) pursuant to the Scheme of Arrangement or pursuant to a proposed amendment to ScottishPower's Articles of Association which will provide for shares in ScottishPower to be issued to an optionholder under the ScottishPower Share Schemes to be transferred to HoldCo in consideration for HoldCo issuing to the optionholder the same number of HoldCo Ordinary Shares as the number of ScottishPower shares so issued under the ScottishPower Schemes, there are no outstanding contractual obligations of HoldCo or ScottishPower or any Subsidiary of HoldCo or ScottishPower to repurchase, redeem or otherwise acquire any HoldCo Ordinary Shares or ScottishPower Ordinary Shares or any shares of any Subsidiary of HoldCo or ScottishPower or to provide funds to, or make any investment (in the form of a loan, capital contribution or otherwise) in, any Subsidiary of HoldCo or ScottishPower or any other person.

(d) As of December 6, 1998, no bonds, debentures, notes or other indebtedness of HoldCo or ScottishPower having the right to vote on any matters on which shareholders may vote are issued or outstanding.

4.03 Authority Relative to this Agreement. Each of HoldCo, ScottishPower, the Partnership and Merger Sub (and, with respect to Section 2.01 only, UKSub 1 and UKSub 2) has full power and authority to enter into this Agreement, and, subject (in the case of this Agreement) to obtaining the ScottishPower Shareholders' Approval (as defined in Section 6.03(a)) and the Scheme Consents, to perform its obligations hereunder, and to consummate the transactions contemplated hereby. The execution, delivery and performance of this Agreement by each of HoldCo, ScottishPower, the Partnership and Merger Sub (and, with respect to Section 2.01 only, UKSub 1 and UKSub 2) and the consummation by each of HoldCo, ScottishPower, the Partnership and Merger Sub (and, with respect to Section 2.01 only, UKSub 1 and UKSub 2) of the transactions contemplated hereby have been duly and validly approved by the Board of Directors of HoldCo, ScottishPower and Merger Sub (and, with respect to Section 2.01 only, UKSub 1 and UKSub 2) and the general partners of the Partnership, and by the Partnership in its capacity as sole stockholder of Merger Sub. The Board of Directors of ScottishPower has passed a resolution declaring the advisability of the Merger and resolving that the Merger be submitted for consideration by the shareholders of ScottishPower. The Board of Directors of HoldCo has passed a resolution approving the Merger. No other corporate proceedings on the part of HoldCo, ScottishPower or Merger Sub or their shareholders, or the Partnership or its general partners are necessary to authorize the execution, delivery and performance of this Agreement by HoldCo, ScottishPower, the Partnership or Merger Sub (and, with respect to Section 2.01 only, UKSub 1 and UKSub 2) and the consummation by HoldCo, ScottishPower, the Partnership and Merger Sub (and, with respect to Section 2.01 only, UKSub 1 and UKSub 2) of the transactions contemplated hereby, other than obtaining the ScottishPower Shareholders' Approval and the Scheme Consents, and to the Scheme of Arrangement becoming effective. This Agreement has been duly and validly executed and delivered by each of HoldCo, ScottishPower, the Partnership and Merger Sub (and, with respect to Section 2.01 only, UKSub 1 and UKSub 2) and constitutes a legal, valid and binding obligation of each of HoldCo, ScottishPower, the Partnership and Merger Sub (and, with respect to Section 2.01 only, UKSub 1 and UKSub 2) enforceable against each of HoldCo, ScottishPower, the Partnership and Merger Sub (and, with respect to Section 2.01 only, UKSub 1 and UKSub 2) in accordance with its terms, except as enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting the enforcement of creditors' rights generally and by general equitable principles (regardless of whether such enforceability is considered in a proceeding in equity or at law).

4.04 Non-Contravention; Approvals and Consents. (a) Subject to the requirement to obtain the Scheme Consents, the execution and delivery of this Agreement by each of HoldCo, ScottishPower, the Partnership and Merger Sub (and, with respect to Section 2.01 only, UKSub 1 and UKSub 2) do not, and the performance by each of HoldCo, ScottishPower, the Partnership and Merger Sub (and, with respect to Section 2.01 only, UKSub 1 and UKSub 2) of its obligations hereunder and the consummation of the transactions contemplated hereby will not, conflict with, result in a violation or breach of, constitute (with or without notice or lapse of time or both) a default under, result in or give to any person any right of payment or reimbursement, termination, cancellation, modification or acceleration of, or result in the creation or imposition of any Lien upon any of the assets or properties of HoldCo, ScottishPower or any of their respective Subsidiaries or any of the ScottishPower Joint Ventures under, any of the terms, conditions or provisions of (i) the memorandum or articles of association or bylaws (or other comparable charter documents) of HoldCo, ScottishPower or any of their

respective Subsidiaries or any of the ScottishPower Joint Ventures, (ii) the Partnership Agreement, or (iii) subject to the obtaining of the ScottishPower Shareholders' Approval and the taking of the actions described in paragraph (b) of this Section, (x) any laws or orders of any Governmental or Regulatory Authority applicable to HoldCo, ScottishPower or any of their respective Subsidiaries or any of the ScottishPower Joint Ventures or any of their respective assets or properties, or (y) any Contracts to which HoldCo, ScottishPower or any of their respective Subsidiaries or any of the ScottishPower Joint Ventures is a party or by which HoldCo, ScottishPower or any of their respective Subsidiaries or any of the ScottishPower Joint Ventures or any of their respective assets or properties is bound, excluding from the foregoing clauses (x) and (y) conflicts, violations, breaches, defaults, rights of payment or reimbursement, terminations, modifications, accelerations and creations and impositions of Liens which, individually or in the aggregate, would not reasonably be expected to have a material adverse effect on HoldCo, ScottishPower and their respective Subsidiaries taken as a whole or on the ability of HoldCo, ScottishPower, the Partnership and Merger Sub to consummate the transactions contemplated by this Agreement.

(b) Except (i) for the filing of a premerger notification report by ScottishPower under the HSR Act, (ii) for the filing of the Registration Statement with the SEC pursuant to the Securities Act, the declaration of the effectiveness of the Registration Statement by the SEC and filings with various state securities authorities that are required in connection with the transactions contemplated by this Agreement, (iii) for the filing of the Articles of Merger and other appropriate merger documents required by the BCA with the Secretary of State and appropriate documents with the relevant authorities of other states in which the Constituent Corporations are qualified to do business, (iv) for the filings with, notices to, and approvals of, the LSE and NYSE, (v) the filing of a notice pursuant to Section 721 of the Defense Production Act of 1950, or any successor thereto ("Exon-Florio"), (vi) the approval of the FERC pursuant to the Power Act, (vii) the approval of any jurisdictional state regulating agencies, (viii) the giving of indications by the OFT, SOS, OFFER and OFWAT as described in Sections 7.01(k) and (l), (ix) as disclosed in Section 4.04 of the ScottishPower Disclosure Letter and (x) for the Scheme Consents, no consent, approval or action of, filing with or notice to any Governmental or Regulatory Authority or other public or private third party is necessary or required under any of the terms, conditions or provisions of any law or order of any Governmental or Regulatory Authority or any Contract to which HoldCo, ScottishPower or any of their respective Subsidiaries or any of the ScottishPower Joint Ventures is a party or by which HoldCo, ScottishPower or any of their respective Subsidiaries or any of the ScottishPower Joint Ventures or any of their respective assets or properties is bound for the execution and delivery of this Agreement by each of HoldCo, ScottishPower, the Partnership and Merger Sub, the performance by each of HoldCo, ScottishPower, the Partnership and Merger Sub of its obligations hereunder or the consummation of the transactions contemplated hereby other than such consents, approvals, actions, filings and notices which the failure to make or obtain, as the case may be, individually or in the aggregate, would not reasonably be expected to have a material adverse effect on HoldCo, ScottishPower and their respective Subsidiaries taken as a whole or on the ability of HoldCo, ScottishPower, the Partnership and Merger Sub to consummate the transactions contemplated by this Agreement.

4.05 SEC Reports and Financial Statements. (a) ScottishPower has delivered to the Company a true and complete copy of each form, report, schedule, registration statement, definitive proxy statement and other document (together with all amendments thereof and supplements thereto) filed by HoldCo, ScottishPower or any of their respective Subsidiaries with the SEC since December 31, 1995 (as such documents have since the time of their filing been amended or supplemented, the "ScottishPower SEC Reports"), which are all the documents (other than preliminary materials) that HoldCo, ScottishPower and their respective Subsidiaries were required to file with the SEC since such date. As of their respective dates, the ScottishPower SEC Reports (i) complied as to form in all material respects with the requirements of the Securities Act or the Exchange Act, as the case may be, and (ii) did not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading. The audited consolidated financial statements and unaudited interim consolidated financial statements (including, in each case, the notes, if any, thereto) included in the ScottishPower SEC Reports (the "ScottishPower Financial Statements") complied as to form in all material respects with the published rules and regulations of the SEC with respect thereto, were prepared in accordance with generally accepted accounting principles in the United Kingdom applied on a consistent basis during the periods involved (except as may be indicated therein or in the notes thereto and except with respect to unaudited statements) and fairly present (subject, in the case of the unaudited interim financial statements, to normal, recurring year-end audit adjustments (which are not expected to be, individually or in the aggregate, materially adverse to HoldCo, ScottishPower and their respective Subsidiaries taken as a whole)) the consolidated financial position of ScottishPower and, in respect of periods ending after the Scheme Date, HoldCo and their respective consolidated subsidiaries as at the respective dates thereof and the consolidated results of their operations and cash flows for the respective periods then ended. Except as set forth in Section 4.05 of the ScottishPower Disclosure Letter, each Subsidiary of ScottishPower and, after the Scheme Date, of Holdco is treated as a consolidated subsidiary of ScottishPower or HoldCo, as the case may be, in the ScottishPower Financial Statements for all periods covered thereby.

(b) All material filings required to be made by ScottishPower or any of its Subsidiaries since December 31, 1995 in the United Kingdom under the Electricity Act 1989, the Water Industry Act 1991, the Water Resources Act 1991 and the Telecommunications Act 1984 have been filed with OFFER, OFWAT and the Office of Telecommunications Services or any other appropriate Governmental or Regulatory Authority, as the case may be, including all material forms, statements, reports, agreements and all material documents, exhibits, amendments and supplements appertaining thereto, including but not limited to all material rates, tariffs, franchises, service agreements and related documents, complied, as of their respective dates, in all material respects with all applicable requirements of the statute and the rules and regulations thereunder.

4.06 Absence of Certain Changes or Events. Except as disclosed in the ScottishPower SEC Reports filed prior to December 6, 1998 or Section 4.06 of the ScottishPower Disclosure Letter, (a) since March 31, 1998 there has not been any change, event or development having, or that would reasonably be expected to have, individually or in the aggregate, a material adverse effect on HoldCo, ScottishPower and their respective Subsidiaries

taken as a whole (other than those changes, events, or developments occurring as a result of general economic or financial conditions or which are not unique to HoldCo, ScottishPower and their respective Subsidiaries but also affect other entities who participate or are engaged in the lines of business in which HoldCo, ScottishPower and their respective Subsidiaries are engaged), and (b) between March 31, 1998 and December 6, 1998 ScottishPower, its Subsidiaries and the ScottishPower Joint Ventures have conducted their respective businesses only in the ordinary course substantially consistent with past practice.

4.07 Absence of Undisclosed Liabilities. Except for matters reflected or reserved against in the balance sheet for the period ended March 31, 1998 included in the ScottishPower Financial Statements or as disclosed in Section 4.07 of the ScottishPower Disclosure Letter, neither HoldCo, ScottishPower nor any of their respective Subsidiaries had at such date, or has incurred since that date, any liabilities or obligations (whether absolute, accrued, contingent, fixed or otherwise, or whether due or to become due) of any nature that would be required by generally accepted accounting principles in the United Kingdom to be reflected on a consolidated balance sheet of ScottishPower and, in respect of periods ending after the Scheme Date, HoldCo and their respective consolidated subsidiaries (including the notes thereto), except liabilities or obligations (i) which were incurred in the ordinary course of business consistent with past practice or (ii) which have not been, and would not reasonably be expected to be, individually or in the aggregate, materially adverse to HoldCo, ScottishPower and their respective Subsidiaries taken as a whole.

4.08 Legal Proceedings. Except as disclosed in the ScottishPower SEC Reports filed prior to December 6, 1998 or in Section 4.08 of the ScottishPower Disclosure Letter and except for environmental matters which are governed by Section 4.15, (i) there are no actions, suits, arbitrations or proceedings pending or, to the knowledge of HoldCo or ScottishPower, threatened against, nor to the knowledge of HoldCo or ScottishPower are there any Governmental or Regulatory Authority investigations or audits pending or threatened against, HoldCo, ScottishPower or any of their respective Subsidiaries or any of the ScottishPower Joint Ventures or any of their respective assets and properties which, individually or in the aggregate, would reasonably be expected to have a material adverse effect on HoldCo, ScottishPower and their respective Subsidiaries taken as a whole or on the ability of HoldCo, ScottishPower, the Partnership and Merger Sub to consummate the transactions contemplated by this Agreement, and (ii) neither HoldCo, ScottishPower nor any of their respective Subsidiaries nor any of the ScottishPower Joint Ventures is subject to any order of any Governmental or Regulatory Authority which, individually or in the aggregate, is having or would reasonably be expected to have a material adverse effect on HoldCo, ScottishPower and their respective Subsidiaries taken as a whole or on the ability of HoldCo, ScottishPower, the Partnership and Merger Sub to consummate the transactions contemplated by this Agreement.

4.09 Information Supplied. (a) The registration statement on Form F-4 to be filed with the SEC by HoldCo in connection with the issuance of HoldCo ADSs in the Merger, as amended or supplemented from time to time (as so amended and supplemented, the "Registration Statement"), and any other documents to be filed by HoldCo or ScottishPower with the SEC or any other Governmental or Regulatory Authority in connection with the Merger and the other transactions contemplated hereby will (in the case of the Registration Statement and

any such other documents filed with the SEC under the Securities Act or the Exchange Act) comply as to form in all material respects with the requirements of the Exchange Act and the Securities Act, respectively, and will not, on the date of its filing or, in the case of the Registration Statement, at the time it becomes effective under the Securities Act, or at the date the Proxy Statement is mailed to stockholders of the Company and at the time of the Company Stockholders' Meeting, contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they are made, not misleading, except that no representation is made by HoldCo, ScottishPower, the Partnership or Merger Sub with respect to information supplied in writing by or on behalf of the Company expressly for inclusion therein and information incorporated by reference therein from documents filed by the Company or any of its Subsidiaries with the SEC.

(b) The ScottishPower Disclosure Documents will, at all relevant times, include all information relating to ScottishPower and HoldCo and their respective Subsidiaries, and information which is within the knowledge of each of the directors of ScottishPower and HoldCo (or which it would be reasonable for them to obtain by making inquiries), which, in each case, is required to enable the ScottishPower Disclosure Documents and the parties hereto to comply in all material respects with all United Kingdom statutory and other legal and regulatory provisions (including, without limitation, the Companies Act, the FSA and the rules and regulations made thereunder, and the rules and requirements of the LSE) and all such information contained in such documents will be substantially in accordance with the facts and will not omit anything material likely to affect the import of such information.

(c) Notwithstanding the foregoing provisions of this Section 4.09, no representation or warranty is made by ScottishPower or HoldCo with respect to statements made or incorporated by reference in the Registration Statement, the Proxy Statement, the Listing Particulars, the Circular or the Scheme Document based on information supplied by the Company expressly for inclusion or incorporation by reference therein or based on information which is not made in or incorporated by reference in such documents but which should have been disclosed pursuant to Section 3.09.

4.10 Permits; Compliance with Laws and Orders. HoldCo, ScottishPower, their respective Subsidiaries and the ScottishPower Joint Ventures hold all permits, licenses, franchises variances, exemptions, orders and approvals of all Governmental and Regulatory Authorities (other than environmental permits which are governed by Section 4.15) necessary for the lawful conduct of their respective businesses (the "ScottishPower Permits"), except for failures to hold such ScottishPower Permits which, individually or in the aggregate, are not having and would not reasonably be expected to have a material adverse effect on HoldCo, ScottishPower and their respective Subsidiaries taken as a whole. HoldCo, ScottishPower, their respective Subsidiaries and the ScottishPower Joint Ventures are in compliance with the terms of the ScottishPower Permits, except failures so to comply which, individually or in the aggregate, are not having and would not reasonably be expected to have a material adverse effect on HoldCo, ScottishPower and their respective Subsidiaries taken as a whole. Except as disclosed in the ScottishPower SEC Reports filed prior to December 6, 1998, none of HoldCo, ScottishPower, their respective Subsidiaries or the ScottishPower Joint

Ventures are in violation of or default under any law or order of any Governmental or Regulatory Authority, except for such violations or defaults which, individually or in the aggregate, are not having and would not reasonably be expected to have a material adverse effect on HoldCo, ScottishPower and their respective Subsidiaries taken as a whole.

4.11 Compliance with Agreements. Except as disclosed in the ScottishPower SEC Reports filed prior to December 6, 1998 or Section 4.11 of the ScottishPower Disclosure Letter, none of HoldCo, ScottishPower or any of their respective Subsidiaries or, to the knowledge of HoldCo or ScottishPower, any other party thereto is in breach or violation of, or in default in the performance or observance of any term or provision of, and no event has occurred which, with notice or lapse of time or both, would reasonably be expected to result in a default under, (i) the memorandum or articles of association (or other comparable charter documents) of HoldCo, ScottishPower or any of their material Subsidiaries or (ii) any Contract to which HoldCo, ScottishPower or any of their respective Subsidiaries is a party or by which HoldCo, ScottishPower or any of their respective Subsidiaries or any of their respective assets or properties is bound, except in the case of clause (ii) for breaches, violations and defaults which, individually or in the aggregate, are not having and would not reasonably be expected to have a material adverse effect on HoldCo, ScottishPower and their respective Subsidiaries taken as a whole.

4.12 Taxes. (a) Each of HoldCo, ScottishPower and their respective Subsidiaries has filed all material tax returns and reports required to be filed by it, or requests for extensions to file such returns or reports have been timely filed or granted and have not expired and all tax returns and reports are complete and accurate in all material respects. HoldCo (if applicable), ScottishPower and each of their respective Subsidiaries has paid (or HoldCo or ScottishPower has paid on its behalf) all taxes shown as due on such tax returns and reports. The most recent financial statements contained in the ScottishPower SEC Reports reflect an adequate reserve for all taxes payable by ScottishPower and its Subsidiaries for all taxable periods and portions thereof accrued through the date of such financial statements, and no deficiencies for any taxes have been proposed, asserted or assessed against HoldCo, ScottishPower or any of their respective Subsidiaries that are not adequately reserved for, except for inadequately reserved taxes and inadequately reserved deficiencies that would not, individually or in the aggregate, have a material adverse effect on HoldCo, ScottishPower and their respective Subsidiaries taken as a whole. No requests for waivers of the time to assess any taxes against HoldCo, ScottishPower or any of their respective Subsidiaries have been granted or are pending, except for requests with respect to such taxes that have been adequately reserved for in the most recent financial statements contained in the ScottishPower SEC Reports, or, to the extent not adequately reserved, the assessment of which would not, individually or in the aggregate, have a material adverse effect on HoldCo, ScottishPower and their respective Subsidiaries taken as a whole.

(b) Neither HoldCo, ScottishPower nor any of their respective Subsidiaries has taken any action or has any knowledge of any fact or circumstance that is reasonably likely to prevent the Merger from qualifying as a tax-free reorganization within the meaning of Code Section 368(a).

(c) UKSub 1 and UKSub 2 are not public limited companies.

(d) From the date hereof through the Share Transfer, ScottishPower will directly own the whole of the issued share capital of UKSub 1 and UKSub 2. Following the Share Transfer and through the Closing Date, HoldCo will directly own the whole of the issued share capital of UKSub 1 and UKSub 2.

(e) UKSub 1 and UKSub 2 directly own all of the equity interests in the Partnership.

(f) Prior to the Closing Date, ScottishPower or HoldCo will make (i) the elections necessary pursuant to Section 301.7701-3 of the U.S. Treasury regulations promulgated under the Code to treat UKSub 1 and UKSub 2 as entities disregarded as separate from ScottishPower and HoldCo and (ii) an election under Section 301.7701-3 of the U.S. Treasury regulations to treat the Partnership as an association taxable as a corporation. Neither ScottishPower, HoldCo, nor any of their respective Subsidiaries has taken any action that (or has failed to take any action if such failure) would reasonably be likely to cause UKSub 1 or UKSub 2 to be characterized as an association taxable as a corporation for U.S. federal income tax purposes.

(g) Following the Scheme Date, HoldCo will satisfy either directly or indirectly, through the activities of one or more "qualified subsidiaries", the active trade or business test specified in Section 1.367(a)-3(c)(3) of the U.S. Treasury regulations for a minimum period of three years prior to the Closing Date.

(h) None of HoldCo, ScottishPower, UKSub 1, UKSub 2, the Partnership, nor any other affiliate of HoldCo or ScottishPower has any intention to redeem, acquire, or to cause the Company or any affiliate of the Company to acquire, or to arrange for another person to acquire, any of the ADS Consideration or the Ordinary Share Consideration.

(i) Neither HoldCo, ScottishPower nor any affiliate thereof, directly or indirectly, has paid any expense incurred by the Company, any Company affiliate or any Company stockholder in connection with the transactions contemplated by this Agreement.

(j) Neither HoldCo, ScottishPower nor any affiliate thereof, directly or indirectly, has loaned any funds to any escrow account, trust or other fund established to pay any expenses incurred by the Company, any Company affiliate or any Company stockholder in connection with the transactions contemplated by this Agreement.

(k) Neither HoldCo, ScottishPower nor any affiliate thereof, directly or indirectly, owns any stock issued by the Company unless acquired directly from the Company.

4.13 ScottishPower Employee Benefit Plans. (a) ScottishPower has made available to the Company complete and correct copies, as of December 6, 1998, of: (i) the current trust deeds and rules of each of the material employee benefit plans to which ScottishPower and its Subsidiaries make or could become liable to make payments for providing retirement, death, disability or life assurance benefits (the "ScottishPower Employee Benefit

Plans") (including any draft amendments); (ii) the most recently prepared explanatory booklets and announcements relating to each of the ScottishPower Employee Benefit Plans; (iii) a copy of the actuary's report on the latest actuarial valuation of the ScottishPower Employee Benefit Plans, if applicable; and (iv) the rules of the ScottishPower Share Schemes.

(b) The ScottishPower Employee Benefit Plans are the only material schemes to which HoldCo, ScottishPower and their respective Subsidiaries make or could become liable to make payments for providing retirement, death, disability or life insurance benefits except for any schemes for providing retirement, death or disability or life insurance benefits ("HoldCo Employee Benefit Plans") which HoldCo establishes in connection with the Scheme of Arrangement which are in all material respects similar to the ScottishPower Employee Benefit Plans.

(c) To the extent such exemption is intended by ScottishPower, the ScottishPower Employee Benefit Plans are exempt approved schemes within the meaning of Chapter 1 Part XIV of the Income and Corporation Taxes Act 1988. Except as specifically set forth in Section 4.13 of the ScottishPower Disclosure Letter, members of the ScottishPower Employee Benefit Plans are contracted-out of the State Earnings Related Pension Scheme.

(d) To the knowledge of HoldCo or ScottishPower, there is no amount which is treated by Section 144 of the Pension Schemes Act 1993 or Section 75 of the Pensions Act 1995 as a debt due to the trustees of the ScottishPower Employee Benefit Plans or from ScottishPower or any of its Subsidiaries to the trustees of any other benefit plan except for such debts which would not reasonably be expected to have a material adverse effect on HoldCo, ScottishPower and their respective Subsidiaries taken as a whole. The ScottishPower Employee Benefit Plans have not ceased to admit new members.

(e) Except as set forth in Section 4.13 of the ScottishPower Disclosure Letter and except for disputes which would not reasonably be expected to have a material adverse effect on HoldCo, ScottishPower and their respective Subsidiaries taken as a whole, there is no dispute about the benefits payable under the ScottishPower Employee Benefit Plans and, to the knowledge of HoldCo or ScottishPower, there are no circumstances which might give rise to any such dispute.

(f) To the knowledge of HoldCo or ScottishPower, the actuary's report on the latest actuarial valuation accurately describes the financial position of each ScottishPower Employee Benefit Plan for which an actuarial valuation is required by law at its effective date and in accordance with the assumptions employed for that valuation. Except as set forth in Section 4.13 of the ScottishPower Disclosure Letter, nothing has happened since that date which would, to a material extent, affect the level of funding of any ScottishPower Employee Benefit Plan and, since that date, contributions have been paid to each ScottishPower Employee Benefit Plan at the rate recommended by the actuary. Except as set forth in Section 4.13 of the ScottishPower Disclosure Letter, no assets have been withdrawn by HoldCo, ScottishPower or any of their respective Subsidiaries from any ScottishPower Employee Benefit Plan (except to pay benefits or by way of

reimbursement of expenses) since the effective date of the latest actuarial valuation of that plan.

(g) Except as set forth in Section 4.13 of the ScottishPower Disclosure Letter or as would not reasonably be expected to have a material adverse effect on HoldCo, ScottishPower and their respective Subsidiaries taken as a whole, the ScottishPower Employee Benefit Plans comply with and have been administered in accordance with all applicable laws, regulations and requirements. All amounts due to the ScottishPower Employee Benefit Plans at any time prior to the month in which this Agreement is signed have been paid.

4.14 Labor Matters. (a) Except as set forth in Section 4.14 of the ScottishPower Disclosure Letter, neither HoldCo, ScottishPower nor any of their respective Subsidiaries is a party to any collective bargaining agreement, recognition agreement, European Works Council or other labor agreement with any union, labor organization or other responsible body. Except as disclosed in the ScottishPower SEC Reports filed prior to December 6, 1998 or in Section 4.14 of the ScottishPower Disclosure Letter, there are no disputes pending or, to the knowledge of HoldCo or ScottishPower, threatened between HoldCo, ScottishPower or any of their respective Subsidiaries or any of the ScottishPower Joint Ventures and any trade union or other representatives of its employees, except as would not, individually or in the aggregate, reasonably be expected to have a material adverse effect on HoldCo, ScottishPower and their respective Subsidiaries taken as a whole, and, to the knowledge of HoldCo or ScottishPower, there are no material organization efforts presently being made involving any of the now unorganized employees of HoldCo, ScottishPower or any of their respective Subsidiaries or any of the ScottishPower Joint Ventures. Since December 31, 1995, there has been no work stoppage, strike or other concerted action by employees of HoldCo, ScottishPower or any of their respective Subsidiaries except as would not, individually or in the aggregate, reasonably be expected to have a material adverse effect on HoldCo, ScottishPower and their respective Subsidiaries taken as a whole.

(b) To the knowledge of HoldCo or ScottishPower, neither HoldCo, ScottishPower nor any of their respective Subsidiaries nor any of the ScottishPower Joint Ventures is in violation of any labor laws in any country (or political subdivision thereof) in which they transact business, except for such violations as would not, individually or in the aggregate, reasonably be expected to have a material adverse effect on HoldCo, ScottishPower and their respective Subsidiaries taken as a whole.

4.15 Environmental Matters. Except as disclosed in the ScottishPower SEC Reports filed prior to December 6, 1998 or in Section 4.15 of the ScottishPower Disclosure Letter and except as would not, individually or in the aggregate, reasonably be expected to have a material adverse effect on HoldCo, ScottishPower and their respective Subsidiaries taken as a whole:

(a) (i) Each of HoldCo, ScottishPower and their respective Subsidiaries and the ScottishPower Joint Ventures is in compliance with all applicable Environmental Laws (as hereinafter defined); and

(ii) Neither HoldCo, ScottishPower nor any of their respective Subsidiaries nor any of the ScottishPower Joint Ventures has received any written communication from any person or Governmental or Regulatory Authority that alleges that HoldCo, ScottishPower or any of their respective Subsidiaries or Joint Ventures is not in such compliance with applicable Environmental Laws.

(b) Each of HoldCo, ScottishPower, their respective Subsidiaries and the ScottishPower Joint Ventures has obtained all environmental, health and safety permits and governmental authorizations (collectively, the "Environmental Permits") necessary for the construction of its facilities and the conduct of its operations, as applicable, and all such Environmental Permits are in full force and effect or, where applicable, a renewal application has been timely filed and is pending agency approval, and HoldCo, ScottishPower, their respective Subsidiaries and the ScottishPower Joint Venture are in compliance with all terms and conditions of the Environmental Permits.

(c) There is no Environmental Claim (as hereinafter defined) pending

(i) against HoldCo, ScottishPower or any of their respective Subsidiaries or any of the ScottishPower Joint Ventures;

(ii) to the knowledge of HoldCo or ScottishPower, against any person or entity whose liability for any Environmental Claim HoldCo, ScottishPower or any of their respective Subsidiaries or any of the ScottishPower Joint Ventures has or may have retained or assumed either contractually or by operation of law; or

(iii) against any real or personal property or operations which HoldCo, ScottishPower or any of their respective Subsidiaries or any of the ScottishPower Joint Ventures owns, leases or manages in whole or in part.

(d) To HoldCo's or ScottishPower's knowledge, there have not been any Releases (as hereinafter defined) of any Hazardous Material (as hereinafter defined) that would be reasonably likely to form the basis of any Environmental Claim against HoldCo, ScottishPower or any of their respective Subsidiaries or any of the ScottishPower Joint Ventures, or against any person or entity whose liability for any Environmental Claim HoldCo, ScottishPower or any of their respective Subsidiaries or any of the ScottishPower Joint Ventures has or may have retained or assumed either contractually or by operation of law.

(e) As used in this Section 4.15:

(i) "Environmental Claims" means any and all administrative, regulatory or judicial actions, suits, demands, demand letters, directives, claims, liens, investigations, proceedings or notices of noncompliance, liability or violation (written or oral) by any person or entity (including any Governmental or Regulatory Authority) alleging potential liability (including, without limitation, potential responsibility or liability for enforcement, investigatory costs, cleanup costs, governmental response costs, removal costs, remedial costs, natural resources damages, property damages, personal injuries or penalties) arising out of, based on or resulting from

(A) the presence, or Release or threatened Release into the environment, of any Hazardous Materials at any location, whether or not owned, operated, leased or managed by HoldCo, ScottishPower or any of their respective Subsidiaries or any of the ScottishPower Joint Ventures; or

(B) circumstances forming the basis of any violation, or alleged violation, of any Environmental Law; or

(C) any and all claims by any third party seeking damages, contribution, indemnification, cost recovery, compensation or injunctive relief resulting from the presence or Release of any Hazardous Materials;

(ii) "Environmental Laws" means all European Union, national, regional, or local laws, rules and regulations relating to pollution, the environment (including, without limitation, ambient air, surface water, groundwater, land surface or subsurface strata) or protection of human health as its relates to the environmental including, without limitation, laws and regulations relating to Releases or threatened Releases of Hazardous Materials, or otherwise relating to the manufacture, processing, distribution, use, treatment, storage, disposal, transport or handling of Hazardous Materials including, without limitation, Part II and paragraphs 161 and 162 of Schedule 22 of the Environment Act 1995 and the Department of the Environment Transport and the Regions Consultation Draft Guidance on Contaminated Land dated October 1998 but not to the extent that any modification thereof introduced in the final form of this guidance imposes materially more onerous or stringent requirements in respect of contaminated land or pollution.

(iii) "Hazardous Materials" means (a) any petroleum or petroleum products, radioactive materials, asbestos in any form that is or could become friable, urea formaldehyde foam insulation, and transformers or other equipment that contain dielectric fluid containing polychlorinated biphenyls; and (b) any chemicals, materials or substances which are now defined as or included in the definition of "hazardous substances", "hazardous wastes", "hazardous materials", "extremely hazardous wastes", "restricted hazardous wastes", "toxic substances", "toxic pollutants", or words of similar import, under any Environmental Law; and (c) any other chemical, material, substance or waste, exposure to which is now prohibited, limited or regulated under any Environmental Law in a jurisdiction in which HoldCo, ScottishPower or any of their respective Subsidiaries or any of the ScottishPower Joint Ventures operates or any jurisdiction which has received such chemical, material, substance or waste from HoldCo, ScottishPower or their respective Subsidiaries; and

(iv) "Release" means any release, spill, emission, leaking, injection, deposit, disposal, discharge, dispersal, leaching or migration into the atmosphere, soil, surface water, groundwater or property.

4.16 Intellectual Property Rights. HoldCo, ScottishPower and their respective Subsidiaries have all right, title and interest in, or a valid and binding license to use,

all Intellectual Property individually or in the aggregate material to the conduct of the businesses of HoldCo, ScottishPower and their respective Subsidiaries taken as a whole. Neither HoldCo, ScottishPower nor any of their respective Subsidiaries is in default (or with the giving of notice or lapse of time or both, would be in default) under any license to use such Intellectual Property, to the knowledge of HoldCo or ScottishPower, such Intellectual Property is not being infringed by any third party, and neither HoldCo, ScottishPower nor any of their respective Subsidiaries is infringing any Intellectual Property of any third party, except for such defaults and infringements which, individually or in the aggregate, are not having and would not reasonably be expected to have a material adverse effect on HoldCo, ScottishPower and their respective Subsidiaries taken as a whole.

4.17 Vote Required. The only votes of the holders of any class of shares of ScottishPower or, after the Scheme Date, Holdco required to approve the Merger and the other transactions contemplated hereby (other than those set forth in paragraphs 1 through 3 of Schedule II and any vote which may be required in order to give effect to the conversion of the Company Stock Options in accordance with Section 6.10 or to give effect to the amendments to HoldCo's Articles of Association in accordance with Section 6.03(c)) are the affirmative vote of a majority of such ordinary shareholders of ScottishPower as (being entitled to do so) are present and vote (or, in the case of a vote taken on a poll, the affirmative vote by shareholders or their proxies representing a majority of the ScottishPower Ordinary Shares in respect of which votes were validly exercised) at the ScottishPower Shareholders Meeting in relation to the approval of the Merger and the Scheme of Arrangement.

4.18 [Intentionally Omitted]

4.19 Ownership of Company Common Stock. Neither HoldCo, ScottishPower nor any of their respective Subsidiaries or other affiliates beneficially owns any shares of Company Common Stock.

4.20 Insurance. Except as set forth in Section 4.20 of the ScottishPower Disclosure Letter, each of ScottishPower and its Subsidiaries is, and has been continuously since January 1, 1994 (and at all times following the Scheme Date, HoldCo and its Subsidiaries will be), insured with financially responsible insurers in such amounts and against such risks and losses as are customary in all material respects for companies conducting the business conducted by HoldCo, ScottishPower and their respective Subsidiaries during such time period. Except as set forth in Section 4.20 of the ScottishPower Disclosure Letter, neither HoldCo, ScottishPower nor any of their respective Subsidiaries has received any notice of cancellation or termination with respect to any material insurance policy of HoldCo, ScottishPower or any of their respective Subsidiaries. The insurance policies of Holdco, ScottishPower and each of their respective Subsidiaries are valid and enforceable policies.

4.21 Year 2000. ScottishPower and its Subsidiaries have (and at all times following the Scheme Date, to the extent (if at all) then necessary, HoldCo will have) put into effect practices and programs which ScottishPower (or HoldCo) reasonably believes will enable all material software, hardware and equipment (including microprocessors) that are owned or utilized by ScottishPower (or HoldCo) or any of their respective Subsidiaries in the

operations of its or their respective business to be capable, by December 31, 1999 of accounting for all calculations using a century and date sensitive algorithm for the year 2000, and the fact that the year 2000 is a leap year and to otherwise continue to function without material interruption caused by the occurrence of the year 2000.

4.22 Joint Venture Representations. Each representation and warranty made by HoldCo or ScottishPower in this Article IV relating to a ScottishPower Joint Venture that is neither operated nor managed by HoldCo or ScottishPower or a Subsidiary thereof shall be deemed to be made only to HoldCo's and ScottishPower's knowledge.

ARTICLE V
COVENANTS

5.01 Covenants of the Company. At all times from and after December 6, 1998 until the Effective Time, the Company covenants and agrees as to itself and its Subsidiaries that (except as expressly contemplated or permitted by this Agreement, or to the extent that HoldCo or ScottishPower shall otherwise previously consent in writing, which consent shall not be unreasonably withheld or delayed):

(a) Ordinary Course. The Company and each of its Subsidiaries shall conduct their businesses only in, and the Company and each of its Subsidiaries shall not take any action except in, the ordinary course substantially consistent with past business practice. Without limiting the generality of the foregoing, the Company and its Subsidiaries shall use all commercially reasonable efforts to preserve intact in all material respects their present business organizations, to maintain in effect all existing material permits, to keep available the services of their key officers and employees, to maintain their assets and properties in good working order and condition, ordinary wear and tear excepted, to maintain insurance on their tangible assets and businesses in substantially the same amounts and against substantially the same risks and losses as are currently in effect, to preserve their relationships with customers and suppliers and others having significant business dealings with them and to comply in all material respects with all laws and orders of all Governmental or Regulatory Authorities applicable to them.

(b) Charter Documents. The Company shall not, nor shall it permit any of its Subsidiaries to, amend or propose to amend its certificate or articles of incorporation or bylaws or its memorandum and articles of association (or other comparable corporate charter documents).

(c) Dividends. The Company shall not, nor shall it permit any of its Subsidiaries to, (i) declare, set aside or pay any dividends on or make other distributions in respect of any of its capital stock or share capital, except:

(A) that the Company may continue the declaration and payment of regular cash dividends (including increases consistent with past practice) on Company Common Stock and the Company Preferred Stock, with usual record and payment dates for such dividends in accordance with past dividend practice; provided, that no such

dividend on the Company Common Stock shall exceed the amount budgeted therefor in the Company Budget (as hereinafter defined), and

(B) for the declaration and payment of dividends by (x) a wholly-owned Subsidiary solely to its parent corporation, (y) Bridger Coal Company in accordance with past practice and (z) Subsidiaries of regular cash dividends with usual record and payment dates (including increases consistent with past practice) in accordance with past dividend practice, and

(ii) split, combine, reclassify or take similar action with respect to any of its capital stock or share capital or issue or authorize or propose the issuance of any other securities in respect of, in lieu of or in substitution for shares of its capital stock or comprised in its share capital, (iii) except as disclosed in Section 5.01(c) of the Company Disclosure Letter, adopt a plan of complete or partial liquidation or resolutions providing for or authorizing such liquidation or a dissolution, merger, consolidation, restructuring, recapitalization or other reorganization or (iv) except as disclosed in Section 5.01(c) of the Company Disclosure Letter, directly or indirectly redeem, repurchase or otherwise acquire any shares of its capital stock or comprised in its share capital or any Option with respect thereto except:

(A) in connection with intercompany purchases of capital stock or share capital,

(B) for the purpose of funding employee stock ownership or dividend reinvestment, stock purchase plans and other incentive plans disclosed in Section 5.01(d) of the Company Disclosure Letter in accordance with past practice, and

(C) Prior to the Closing Date, the Company shall redeem all outstanding shares of its $1.25 Series, $1.18 Series and $1.16 Series of no par serial preferred stock.

(d) Share Issuances. The Company shall not, nor shall it permit any of its Subsidiaries to, issue, deliver or sell, or authorize or propose the issuance, delivery or sale of, any shares of its capital stock or comprised in its share capital or any Option with respect thereto (other than (i) the issuance of Company Common Stock upon the exercise of Options issued pursuant to the Company's Stock Incentive Plan outstanding on December 6, 1998 and in accordance with their present terms, (ii) except as specifically set forth under the heading "Long-Term Incentive Awards" on the Schedule of Ongoing Compensation Obligations attached to Section 5.01(d) of the Company Disclosure Letter, the issuance of options or awards pursuant to the Company's Stock Incentive Plan in accordance with its present terms and only in connection with the hiring of new employees, and the issuance of shares of Company Common Stock upon exercise of such options or awards, (iii) the issuance by a wholly-owned Subsidiary of its capital stock to its parent corporation, or modify or amend any right of any holder of outstanding shares

of capital stock or Options with respect thereto and (iv) shares of Company Preferred Stock with a stated value of up to an aggregate of $250 million).

(e) Acquisitions. Except as set forth in Section 5.01(e) of the Company Disclosure Letter and other than as provided in the 1999 operating budget of the Company, a copy of which has been disclosed to and discussed with ScottishPower, or any other budget of the Company thereafter approved by HoldCo or ScottishPower, which approval shall not be unreasonably withheld (collectively, the "Company Budget"), the Company shall not, nor shall it permit any of its Subsidiaries to, acquire (by merging or consolidating with, or by purchasing a substantial equity interest in or a substantial portion of the assets of, or by any other manner) any business or any corporation, partnership, association or other business organization or division thereof or otherwise acquire or agree to acquire any assets in excess of $25 million in any one transaction; provided, that this Section 5.01(e) shall not prohibit any capital expenditures made in accordance with Section 5.01(i).

(f) Dispositions. Other than as set forth in Section 5.01(f) of the Company Disclosure Letter, the Company shall not, nor shall it permit any of its Subsidiaries to, sell, lease, grant any security interest in or otherwise dispose of or encumber any of its assets or properties, other than dispositions in the ordinary course of its business consistent with past practice or having an aggregate net book value of $25 million or less in any one transaction.

(g) Indebtedness. Other than as expressly provided in the Company Budget, the Company shall not, nor shall it permit any of its Subsidiaries to, incur or guarantee any indebtedness (including any debt borrowed or guaranteed or otherwise assumed, including, without limitation, the issuance of debt securities or warrants or rights to acquire debt) or enter into any "keep well" or other agreement to maintain any financial condition of another person or enter into any arrangement having the economic effect of any of the foregoing other than (i) short-term indebtedness in the ordinary course of business consistent with past practice (such as the issuance of commercial paper or the use of existing credit facilities) in an aggregate amount not exceeding $500 million; (ii) long-term indebtedness not aggregating more than $200 million and (iii) indebtedness entered into in connection with the refinancing of indebtedness outstanding on December 6, 1998 or incurred in compliance with this Section 5.01(g).

(h) Employee Benefits. Except as set forth on Section 5.01(h) of the Company Disclosure Letter, the Company shall not, nor shall it permit any of its Subsidiaries to, enter into, adopt, amend (except as may be required by applicable law) or terminate any Company Employee Benefit Plan, or increase in any manner the compensation or fringe benefits of any director or executive officer, or, except for normal increases in the ordinary course of business consistent with past practice that, in the aggregate, do not result in a material increase in benefits or compensation expense to the Company and its Subsidiaries taken as a whole, increase in any manner the compensation or fringe benefits of any employee, or pay any benefit not required by any plan or arrangement in effect as of December 6, 1998 and, in no event shall the Company or its Subsidiaries be permitted to grant to any employee any rights that are not in effect on December 6, 1998 to any payment (whether of severance pay or otherwise), acceleration, forgiveness of indebtedness, vesting, distribution, increase in benefits or increase in

obligations to fund benefits with respect to that employee resulting from a change in control or change in ownership of the Company or any of its Subsidiaries.

(i) Affiliate Contracts. Except as disclosed in Section 5.01(i) of the Company Disclosure Letter, the Company shall not, nor shall it permit any of its Subsidiaries or, within the exercise of its reasonable commercial efforts, its Joint Ventures to, except as otherwise expressly provided for in this Agreement, enter into any Contract or amend or modify any existing Contract, or engage in any new transaction outside the ordinary course of business consistent with past practice or not on an arm's length basis, with any affiliate of such party or any of its Subsidiaries.

(j) Capital Expenditures. The Company shall not, nor shall it permit any of its Subsidiaries to, make any capital expenditures or commitments other than (i) as required by applicable law, (ii) capital expenditures incurred in connection with the repair or replacement of facilities destroyed or damaged due to casualty or accident (whether or not covered by insurance), and (iii) other capital expenditures in excess of 110% of the aggregate amount provided for such purposes in the Company Budget.

(k) 1935 Act. The Company shall not, nor shall it permit any of its Subsidiaries to, engage in any activities which would cause a change in its status, or that of its Subsidiaries, under the 1935 Act, including any action or inaction that would cause the prior approval of the SEC under the 1935 Act to be required for the consummation of the transactions contemplated hereby.

(l) Regulatory Status. The Company shall not, nor shall it permit any of its Subsidiaries to, agree or consent to any material agreements or modifications of material existing agreements with any Government or Regulatory Authority in respect of the operations of their businesses except where following discussion with the relevant authority such agreements or modifications are imposed upon the Company.

(m) Transmission. Generation. Except as required pursuant to tariffs on file with the FERC as of December 6, 1998, or as set forth in Section 5.02(m) of the Company Disclosure Letter, the Company shall not, nor shall it permit its Subsidiaries to:

(i) commence construction of any additional generating, transmission or delivery capacity in excess of 500 megawatts, or

(ii) obligate itself to purchase or otherwise acquire, or to sell or otherwise dispose of, or to share, any additional generating, transmission or delivery plants or facilities, in an amount in excess of $25 million in any one transaction, except as set forth in the Company Budget. Any regulatory order potentially imposing any such obligation shall be immediately forwarded to HoldCo or ScottishPower.

(n) Accounting. The Company shall not, nor shall it permit any of its Subsidiaries to, make any material changes in their accounting methods, except as required by law, rule, regulation or applicable generally accepted accounting principles.

(o) Tax Matters. The Company shall not take any action which (or fail to take any action if such failure) would cause the Merger to fail to qualify as a reorganization described in Code Section 368(a).

(p) No Breach. The Company shall not, nor shall it permit any of its Subsidiaries to willfully take or fail to take any action that would or is reasonably likely to result (i) in a material breach of any provision of this Agreement, or (ii) in any of its representations and warranties set forth in this Agreement being untrue on and as of the Closing Date.

(q) No Litigation. The Company shall not, nor shall it permits any of its Subsidiaries to, initiate any material actions, suits, arbitrations or proceedings.

(r) Tax-Exempt Status. The Company shall not, nor shall it permit any of its Subsidiaries to, except as otherwise expressly provided for in this Agreement, take any action that would be reasonably likely to jeopardize the qualification of any material amount of outstanding revenue bonds which qualify on December 6, 1998 under Section 142(a) of the Code as "exempt facility bonds" or as tax-exempt industrial development bonds under Section 103(b)(4) of the Internal Revenue Code of 1954, as amended, prior to the enactment of the Tax Reform Act of 1986.

(s) Advice of Changes. The Company shall confer with HoldCo or ScottishPower on a regular and frequent basis with respect to the Company's business and operations and other matters relevant to the Merger, and shall promptly advise HoldCo or ScottishPower, orally and in writing, of any material change or event, including, without limitation, any complaint, investigation or hearing by any Governmental or Regulatory Authority (or communication indicating the same may be contemplated) or the institution or threat of material litigation; provided that the Company shall not be required to make any disclosure to the extent such disclosure would constitute a violation of any applicable law or regulation.

(t) Notice and Cure. The Company will notify HoldCo or ScottishPower in writing of, and will use all commercially reasonable efforts to cure before the Closing, any event, transaction or circumstance, as soon as practical after it becomes known to the Company, that causes or will cause any covenant or agreement of the Company under this Agreement to be breached or that renders or will render untrue in any material respect any representation or warranty of the Company contained in this Agreement. The Company also will notify HoldCo or ScottishPower in writing of, and will use all commercially reasonable efforts to cure, before the Closing, any violation or breach, as soon as practical after it becomes known to the Company, of any representation, warranty, covenant or agreement made by the Company. No notice given pursuant to this paragraph shall have any effect on the representations, warranties, covenants or agreements contained in this Agreement for purposes of determining satisfaction of any condition contained herein.

(u) Fulfillment of Conditions. Subject to the terms and conditions of this Agreement, the Company will take or cause to be taken all commercially reasonable steps necessary or desirable and will proceed diligently and in good faith to satisfy each condition to its obligations contained in this Agreement and to consummate and make effective the

transactions contemplated by this Agreement, and the Company will not, nor will it permit any of its Subsidiaries to, take or fail to take any action that would reasonably be expected to result in the nonfulfillment of any such condition.

5.02 Covenants of HoldCo and ScottishPower. Each of HoldCo, at all times from and after the date hereof until the Effective Time, and ScottishPower, at all times from December 6, 1998 until the Effective Time, covenants and agrees as to itself and its Subsidiaries that (except for the transactions contemplated or permitted by this Agreement or to the extent that the Company shall otherwise previously consent in writing, which consent shall not be unreasonably withheld or delayed):

(a) Ordinary Course. Except pursuant to the Scheme of Arrangement and the establishment of HoldCo Share Schemes and HoldCo Employee Benefit Plans, HoldCo, ScottishPower and each of their respective Subsidiaries shall conduct their businesses only in, and HoldCo, ScottishPower and each of their respective Subsidiaries shall not take any action except in, the ordinary course consistent with past practice. Without limiting the generality of the foregoing, HoldCo, ScottishPower and their respective Subsidiaries shall use all commercially reasonable efforts to preserve intact in all material respects their present business organizations and reputation, to maintain in effect all existing permits, to keep available the services of their key officers and employees, to maintain their assets and properties in good working order and condition, ordinary wear and tear excepted, to maintain insurance on their tangible assets and businesses in such amounts and against such risks and losses as are currently in effect, to preserve their relationships with customers and suppliers and others having significant business dealings with them and to comply in all material respects with all laws and orders of all Governmental or Regulatory Authorities applicable to them.

(b) Charter Documents. Other than as contemplated by Section 6.03(c) and except to the extent required to comply with applicable law or the rules of the LSE, HoldCo (after the Scheme Date) and ScottishPower shall not, nor shall they permit any of their respective Subsidiaries to, amend or propose to amend their respective certificates or articles of incorporation or bylaws or their respective memoranda and articles of association (or other comparable corporate charter documents).

(c) Dividends. Other than as set forth in the ScottishPower Budget (as defined in Section 5.02(e)), HoldCo and, prior to the Scheme Date, ScottishPower shall not, nor shall they permit any of their respective Subsidiaries to,

(i) declare, set aside or pay any dividends on or make other distributions in respect of any of its capital stock or share capital, except:

(A) that, ScottishPower may, (I) as regards record dates for the payment of dividends occurring prior to the Scheme Date, continue the declaration and payment of regular cash dividends (including increases consistent with past practice) on ScottishPower Ordinary Shares, with usual record and payment dates for such dividends in accordance with past dividend practice; provided, that no such

dividend shall exceed by more than 12% the dividend payable during the prior fiscal year in respect of the comparable time period and (II) before, on or after the Scheme Date, effect the Share Transfer, and

(B) that, as regards record dates for the payment of dividends occurring after the Scheme Date, HoldCo may declare and pay regular cash dividends (including increases consistent with ScottishPower's past practice) on HoldCo Ordinary Shares, with usual record and payment dates for such dividends in accordance with ScottishPower's past dividend practice; provided, that no such dividend shall, when taken together with any dividend paid pursuant to clause (A)(I) of this paragraph (c), exceed more than 12% of the dividend payable by ScottishPower during the prior fiscal year in respect of the comparable time period, and

(C) for the declaration and payment of dividends by a wholly-owned Subsidiary solely to its parent corporation (including for the avoidance of doubt dividends by ScottishPower to HoldCo following the Scheme Date), and

(ii) other than pursuant to the Scheme of Arrangement or in connection with the restructuring of the transactions contemplated hereby pursuant to Section 6.07, split, combine, reclassify or take similar action with respect to any of its capital stock or share capital or issue or authorize or propose the issuance of any other securities in respect of, in lieu of or in substitution for shares of its capital stock or comprised in its share capital (except that HoldCo may subdivide its ordinary shares as referred to in Section 4.02(a)), (iii) other than pursuant to the Scheme of Arrangement, adopt a plan of complete or partial liquidation or resolutions providing for or authorizing such liquidation or a dissolution, merger, consolidation, restructuring, recapitalization or other reorganization or (iv) other than pursuant to the Scheme of Arrangement or as described in Section 5.02(c) of the ScottishPower Disclosure Letter, directly or indirectly redeem, repurchase or otherwise acquire any shares of its capital stock or comprised in its share capital or any Option with respect thereto except:

(A) in connection with intercompany purchases of capital stock or share capital,

(B) for the purpose of funding employee share ownership, dividend reinvestment, stock purchase and other incentive plans disclosed in Section 5.02 (c) of the ScottishPower Disclosure Letter in accordance with past practice,

(C) the redemption of the ScottishPower Special Share or the HoldCo Special Share in accordance with its terms or

(D) the redemption of the 49,998 HoldCo non-voting redeemable shares referred to in Section 4.02.

(d) Share Issuances. Other than pursuant to the Scheme of Arrangement, (i) ScottishPower shall not, nor shall it permit any of its Subsidiaries to, issue, deliver or sell, or authorize or propose the issuance, delivery or sale of, any shares of its capital stock or comprised in its share capital or any Option with respect thereto (other than (A) up to 125 million shares of ScottishPower Ordinary Shares for general corporate purposes, (B) the issuance of ScottishPower Ordinary Shares or stock appreciation, share awards or similar rights, as the case may be, pursuant to the ScottishPower Share Schemes, in each case outstanding on December 6, 1998 and in accordance with their present terms, subject to any amendments made in the ordinary course consistent with past practice or pursuant to any share scheme of ScottishPower to be adopted in the ordinary course consistent with past practice, (C) the issuance of options or awards pursuant to ScottishPower Share Schemes in accordance with their present terms, subject to any amendments made in the ordinary course of business consistent with past practice or as reasonably necessary to reflect the Scheme of Arrangement and, except as set forth in Section 5.02(d) of the ScottishPower Disclosure Letter, only in connection with the hiring of new employees and the issuance of shares of ScottishPower Ordinary Shares upon exercise of such options or awards, and (D) the issuance by a wholly-owned Subsidiary of its capital stock to its parent corporation, or modify or amend any right of any holder of outstanding shares of capital stock or Options with respect thereto).

(ii) HoldCo shall not, nor shall it permit any of its Subsidiaries to, issue, deliver or sell, or authorize or propose the issuance, delivery or sale of, any shares of its capital stock other than in the amounts and for the purposes set forth in clause (i) of this paragraph (d) and other than pursuant to the HoldCo Share Schemes or pursuant to the arrangement referred to in Section 4.02(c)(iv) or pursuant to the ScottishPower Share Schemes as amended as reasonably necessary to reflect the Scheme of Arrangement.

(e) Acquisitions. Other than as provided in the 1999 operating budget of ScottishPower, a copy of which has been disclosed to and discussed with the Company, or any subsequently-adopted budget of ScottishPower disclosed to the Company (collectively, the "ScottishPower Budget") or pursuant to the Scheme of Arrangement, neither HoldCo nor ScottishPower shall, nor shall they permit any of their respective Subsidiaries to, acquire (by merging or consolidating with, or by purchasing a substantial equity interest in or a substantial portion of the assets of, or by any other manner) any business or any corporation, partnership, association or other business organization or division thereof (i) in excess of £750 million or (ii) if such acquisition would have a material adverse affect on HoldCo, ScottishPower and their respective Subsidiaries taken as a whole, without the prior written consent of the Company.

(f) Dispositions. Other than as provided in the ScottishPower Budget, and other than the transfer of all of the outstanding shares of UKSub 1 and UKSub 2 from ScottishPower to HoldCo, neither HoldCo nor ScottishPower shall, nor shall they permit any of their respective Subsidiaries to, sell, lease, grant any security interest in or otherwise dispose of or encumber any of its assets or properties, other than dispositions in the ordinary course of its business consistent with past practice and having an aggregate value of less than £750 million.

(g) Indebtedness. Neither HoldCo nor ScottishPower shall, nor shall they permit any of their respective Subsidiaries to, incur or guarantee any indebtedness (including any debt borrowed or guaranteed or otherwise assumed, including, without limitation, the issuance of debt securities or warrants or rights to acquire debt) or enter into any "keep well" or other agreement to maintain any financial condition of another Person or enter into any arrangement having the economic effect of any of the foregoing, other than indebtedness in an aggregate amount not exceeding 110% of the amount of indebtedness provided for in the ScottishPower Budget. For purposes of this paragraph (g), any indebtedness up to £500 million incurred in connection with the planned buyback of ScottishPower Ordinary Shares and/or HoldCo Ordinary Shares shall be disregarded.

(h) Affiliate Contracts. Neither HoldCo nor ScottishPower shall, nor shall they permit any of their respective Subsidiaries or, within the exercise of its reasonable commercial efforts, the ScottishPower Joint Ventures to, enter into any Contract or amend or modify any existing Contract, or engage in any new transaction (other than pursuant to the Scheme of Arrangement) outside the ordinary course of business consistent with past practice or not on an arm's length basis, with any affiliate of such party or any of its Subsidiaries.

(i) Capital Expenditures. Except for any payments by HoldCo to ScottishPower in connection with the acquisition by HoldCo of UKSub 1 and UKSub 2 or any investment by HoldCo in UKSub 1 and UKSub 2, neither HoldCo nor ScottishPower shall, nor shall they permit any of their respective Subsidiaries to, make any capital expenditures or commitments (except as required by law or regulation) in excess of 110% of the aggregate amount provided for such purposes in the ScottishPower Budget.

(j) 1935 Act. Except for the acquisition of ScottishPower by HoldCo and the filing of Forms U-57 by ScottishPower and HoldCo's other utility subsidiaries after the acquisition of ScottishPower by HoldCo, neither HoldCo nor ScottishPower shall, nor shall they permit any of their respective Subsidiaries to, engage in any activities which would cause a change in its status, or that of its Subsidiaries, under the 1935 Act, including any action or inaction that would cause the prior approval of the SEC under the 1935 Act to be required for the consummation of the transactions contemplated hereby.

(k) UK Licensing Regime. Except pursuant to the Scheme of Arrangement, neither HoldCo nor ScottishPower shall, nor shall they permit any of their respective Subsidiaries to, engage in any activities or omit to do anything which would entitle any Governmental or Regulatory Authority to revoke in whole or in material part any material license, authorization or appointment or which would otherwise materially change the status of HoldCo, ScottishPower or any of their respective Subsidiaries (HoldCo, ScottishPower and their respective Subsidiaries being referred to as the "HoldCo Group") thereunder.

(l) Transmission, Generation. Except as set forth in Section 5.02(l) of the ScottishPower Disclosure Letter, neither HoldCo nor ScottishPower shall, nor shall they permit any of their respective Subsidiaries to:

(i) commence construction of any additional generating, transmission or delivery capacity in excess of 500 megawatts, or

(ii) obligate itself to purchase or otherwise acquire, or to sell or otherwise dispose of, or to share, any additional generating, transmission or delivery plants or facilities, in an amount in excess of $200 million in any one transaction.

(m) Accounting. Neither HoldCo nor ScottishPower shall nor shall they permit any of their respective Subsidiaries to, make any changes in their accounting methods, except as required by law, rule, regulation or applicable generally accepted accounting principles or, in the case of HoldCo, adopting accounting methods substantially the same as those of ScottishPower.

(n) Tax Matters. Neither HoldCo nor ScottishPower shall, nor shall they permit any of their respective Subsidiaries to, take any action which (or fail to take any action if such failure) would cause the Merger to fail to qualify as a reorganization described in Section 368(a) of the Code.

(o) No Breach. Neither HoldCo nor ScottishPower shall, nor shall they permit any of their respective Subsidiaries to, willfully take or fail to take any action that would or is reasonably likely to result (i) in a material breach of any provision of this Agreement, or (ii) in any of its representations and warranties set forth in this Agreement being untrue on and as of the Closing Date.

(p) Advice of Changes. HoldCo and ScottishPower shall confer with the Company on a regular and frequent basis with respect to HoldCo's and ScottishPower's business and operations and other matters relevant to the Merger, and shall promptly advise the Company, orally and in writing, of any material change or event, including, without limitation, any complaint, investigation or hearing by any Governmental or Regulatory Authority (or communication indicating the same may be contemplated) or the institution or threat of litigation, having, or which, insofar as can be reasonably foreseen, could have, a material adverse effect on HoldCo, ScottishPower and their respective Subsidiaries taken as a whole or on the ability of HoldCo and ScottishPower to consummate the transactions contemplated hereby; provided that HoldCo and ScottishPower shall not be required to make any disclosure to the extent such disclosure would constitute a violation of any applicable law or regulation.

(q) Notice and Cure. HoldCo or ScottishPower will notify the Company in writing of, and will use all commercially reasonable efforts to cure before the Closing, any event, transaction or circumstance, as soon as practical after it becomes known to HoldCo or ScottishPower, that causes or will cause any covenant or agreement of HoldCo or ScottishPower under this Agreement to be breached or that renders or will render untrue any representation or warranty of HoldCo or ScottishPower contained in this Agreement. HoldCo or ScottishPower will also notify the Company in writing of, and will use all commercially reasonable efforts to cure, before the Closing, any violation or breach, as soon as practical after it becomes known to HoldCo or ScottishPower, of any representation, warranty, covenant or agreement made by HoldCo or ScottishPower. No notice given pursuant to this paragraph shall have any effect on

the representations, warranties, covenants or agreements contained in this Agreement for purposes of determining the satisfaction of any condition contained herein.

(r) Fulfillment of Conditions. Subject to the terms and conditions of this Agreement, HoldCo and ScottishPower will take or cause to be taken all commercially reasonable steps necessary or desirable and proceed diligently and in good faith to satisfy each condition to the Company's obligations contained in this Agreement and to consummate and make effective the transactions contemplated by this Agreement, and neither HoldCo nor ScottishPower will, nor will they permit any of their respective Subsidiaries to, take or fail to take any action that would reasonably be expected to result in the nonfulfillment of any such condition.

5.03 Joint Executive Committee. As soon as practicable after the date hereof, ScottishPower and the Company shall establish a joint executive committee (the "Joint Executive Committee") which shall be comprised of three nominees of ScottishPower (one of whom, in the first instance, shall be Ian Robinson) and three nominees of the Company (one of whom, in the first instance, shall be Keith McKennon). The Joint Executive Committee shall be jointly chaired by Ian Robinson and Keith McKennon and shall have the objective of facilitating and achieving the Merger contemplated in this Agreement, integration planning, strategic development, developing recommendations concerning the future structure and the general operation of the Company after the Effective Time subject to applicable law. The Joint Executive Committee shall meet monthly in the United States or upon such other date or dates, and in such other places, as ScottishPower and the Company may agree from time to time and may be convened by telephone, video conference or similar means.

5.04 Tax Matters. Except as set forth in their respective Disclosure Letters, neither HoldCo, ScottishPower nor the Company shall, nor shall any party permit its Subsidiaries to, make or rescind any material express or deemed election relating to taxes, or change any of its methods of reporting income or deductions for tax purposes from those employed in the preparation of its tax return(s) for the prior taxable year, except as may be required by applicable law, as agreed to by the other party or, subject to Section 6.18, to the extent reasonably necessary to comply with or implement the Scheme of Arrangement. The Company shall inform ScottishPower regarding the progress of any material claim, action, suit, litigation, proceeding, arbitration, investigation, audit or controversy relating to taxes and shall consult with ScottishPower before entering into any settlements or compromises with regard to such matters.

5.05 Discharge of Liabilities. Neither HoldCo, ScottishPower nor the Company shall, nor shall any party permit its Subsidiaries to, pay, discharge or satisfy any material claims, liabilities or obligations (absolute accrued, asserted or unasserted, contingent or otherwise), other than the entry into of the New Facilities in place of, and/or amending, the RCF, or other than as contemplated by paragraph 11 of Schedule I or other than the payment, discharge or satisfaction, in the ordinary course of business consistent with past practice (which includes the payment of final and unappealable judgments) or in accordance with their terms, of liabilities reflected or reserved against in, or contemplated by, the most recent consolidated financial statements (or the notes thereto) of such party included in such party's reports filed with

the SEC or the Registrar of Companies in Edinburgh, or incurred in the ordinary course of business consistent with past practice.

5.06 Contracts. Neither HoldCo, ScottishPower nor the Company shall, nor shall any party permit its Subsidiaries or, within the exercise of its reasonable business efforts, its Joint Ventures to, except the entry into of the New Facilities in place of, and/or amending, the RCF, or other than as contemplated by paragraph 11 of Schedule I or as contemplated by this Agreement or in the ordinary course of business consistent with past practice, modify, amend, terminate, renew or fail to use reasonable business efforts to renew any material contract or agreement to which such party or any Subsidiary of such party is a party or waive, release or assign any material rights or claims.

5.07 No Solicitations. (a) Except as disclosed in Section 5.07 of the Company Disclosure Letter, prior to the Effective Time, the Company agrees (i) that neither it nor any of its Subsidiaries or other affiliates shall, and it shall use its best efforts to cause their respective Representatives (as defined in Section 9.12) not to, initiate, solicit or encourage, directly or indirectly, any inquiries or the making or implementation of any proposal or offer (including, without limitation, any proposal or offer to its stockholders) with respect to a merger, consolidation or other business combination including the Company or any of its Subsidiaries or any acquisition or similar transaction (including, without limitation, a tender or exchange offer) involving the purchase of (A) all or any significant portion of the assets of the Company and its Subsidiaries taken as a whole, (B) 5% or more of the outstanding shares of Company Common Stock or (C) 5% of the outstanding shares of the capital stock of any Subsidiary of the Company (any such proposal or offer being hereinafter referred to as an "Alternative Proposal"), or engage in any negotiations concerning, or provide any confidential information or data to, or have any discussions with, any person or group relating to an Alternative Proposal (excluding the transactions contemplated by this Agreement), or otherwise facilitate any effort or attempt to make or implement an Alternative Proposal; (ii) that it will immediately cease and cause to be terminated any existing activities, discussions or negotiations with any parties with respect to any of the foregoing, and it will take the necessary steps to inform such parties of its obligations under this Section; and (iii) that it will notify ScottishPower or HoldCo promptly if any such inquiries, proposals or offers are received by, any such information is requested from, or any such negotiations or discussions are sought to be initiated or continued with, it or any of such persons; provided, however, that nothing contained in this Section 5.07(a) shall prohibit the Board of Directors of the Company from (i) furnishing information to (but only pursuant to a confidentiality agreement in customary form and having terms and conditions no less favorable to the Company than the Confidentiality Agreement (as defined in Section 6.01)) or entering into discussions or negotiations with any person or group that makes an unsolicited bona fide Alternative Proposal, if, and only to the extent that, prior to receipt of the Company Stockholders' Approval, (A) the Board of Directors of the Company, based upon the advice of outside counsel, determines in good faith that a failure to perform such action could reasonably be expected to result in a breach of its fiduciary duties to stockholders imposed by law, (B) the Board of Directors has reasonably concluded in good faith (after consultation with its financial advisors) that the person or group making such Alternative Proposal will have adequate sources of financing to consummate such Alternative Proposal, (C) the Board of Directors has reasonably concluded in good faith that such Alternative Proposal is more favorable to the Company's

stockholders than the Merger, (D) prior to furnishing such information to, or entering into discussions or negotiations with, such person or group, the Company provides written notice to ScottishPower or HoldCo to the effect that it is furnishing information to, or entering into discussions or negotiations with, such person or group, which notice shall identify such person or group in reasonable detail, and (E) the Company keeps ScottishPower or HoldCo appropriately informed of the status of any such discussions or negotiations; and (ii) to the extent required, complying with Rule 14e-2 promulgated under the Exchange Act with regard to an Alternative Proposal. Nothing in this Section 5.07 shall (x) permit the Company to terminate this Agreement (except as specifically provided in Article VIII), (y) permit the Company to enter into any agreement with respect to an Alternative Proposal for so long as this Agreement remains in effect (it being agreed that for so long as this Agreement remains in effect, the Company shall not enter into any agreement with any person or group that provides for, or in any way facilitates, an Alternative Proposal (other than a confidentiality agreement under the circumstances described above)), or (z) affect any other obligation of the Company under this Agreement.

(b) Each of HoldCo and ScottishPower agrees that (i) neither it nor any of its Subsidiaries or other affiliates shall, and it shall use its best efforts to cause their respective Representatives (as defined in Section 9.12) not to, initiate, solicit or encourage, directly or indirectly, any inquiries or the making of any proposal or offer (including, without limitation, any proposal or offer to its shareholders) with respect to any transaction that would constitute a Change of Control (as defined in Section 8.01(e)), (ii) it will notify the Company promptly if any such inquiries, proposals or offers are received by HoldCo or ScottishPower and (iii) will keep the Company appropriately informed of the status of any such inquiries, proposals or offers.

5.08 Conduct of Business of Merger Sub. (a) Merger Sub shall not be formed until immediately prior to the Closing Date.

(b) Prior to the Effective Time, HoldCo shall cause Merger Sub to (i) perform its obligations under this Agreement in accordance with its terms, (ii) not incur directly or indirectly any liabilities or obligations other than those incurred in connection with the Merger, (iii) not engage directly or indirectly in any business or activities of any type or kind and not enter into any agreements or arrangements with any person, or be subject to or bound by any obligation or undertaking, which is not contemplated by this Agreement and (iv) not create, grant or suffer to exist any Lien upon its properties or assets which would attach to any properties or assets of the Surviving Corporation after the Effective Time.

5.09 Third Party Standstill Agreements. During the period from December 6, 1998 through the Effective Time, neither the Company nor any of its Subsidiaries shall terminate, amend, modify or waive any provision of any confidentiality or standstill agreement to which it is a party. During such period, the Company shall enforce, to the fullest extent permitted under applicable law, the provisions of any such agreement, including, but not limited to, by obtaining injunctions to prevent any breaches of such agreements and to enforce specifically the terms and provisions thereof in any court having jurisdiction.

5.10 Control of Other Party's Business. Nothing contained in this Agreement shall give the Company, directly or indirectly, the right to control or direct HoldCo's

or ScottishPower's operations prior to the Effective Time. Nothing contained in this Agreement shall give HoldCo or ScottishPower, directly or indirectly, the right to control or direct the Company's operations prior to the Effective Time. Prior to the Effective Time, each of the Company, HoldCo and ScottishPower shall exercise, consistent with the terms and conditions of this Agreement, complete control and supervision over its respective operations.

ARTICLE VI
ADDITIONAL AGREEMENTS

6.01 Access to Information. Each of the Company, HoldCo and ScottishPower shall, and shall cause each of its Subsidiaries and, so long as consistent with its confidentiality obligations under its Joint Venture agreements, shall use commercially reasonable efforts to cause its Joint Ventures to, throughout the period from the date hereof to the Effective Time, (i) provide the other parties and their respective Representatives with full access, upon reasonable prior notice and during normal business hours, to all officers, employees, agents and accountants of the Company, HoldCo and ScottishPower, as the case may be, and their respective Subsidiaries and Joint Ventures and their respective assets, properties, books and records, but only to the extent that such access does not unreasonably interfere with the business and operations of the Company, HoldCo and ScottishPower, as the case may be, and its Subsidiaries and Joint Ventures, and (ii) furnish promptly to such persons (x) a copy of each report, statement, schedule and other document filed or received by the Company, HoldCo and ScottishPower, as the case may be, or any of their respective Subsidiaries and Joint Ventures pursuant to the requirements of federal or state securities laws and each material report, statement, schedule and other document filed with any other Governmental or Regulatory Authority, and (y) all other information and data (including, without limitation, copies of Contracts, Company Employee Benefit Plans, and other books and records) concerning the business and operations of the Company, HoldCo and ScottishPower, as the case may be, and its Subsidiaries and Joint Ventures as any such party or any of such other persons reasonably may request. No investigation pursuant to this paragraph or otherwise shall affect any representation or warranty contained in this Agreement or any condition to the obligations of the parties hereto. Any such information or material obtained pursuant to this Section 6.01 that constitutes "Review Material" (as such term is defined in the letter agreement dated as of October 12, 1998 between the Company and ScottishPower (the "Confidentiality Agreement")) shall be governed by the terms of the Confidentiality Agreement.

6.02 Preparation of Registration Statement and Proxy Statement. As soon as practicable after the date of this Agreement, the Company shall, in cooperation with HoldCo and ScottishPower, prepare the Proxy Statement and HoldCo and ScottishPower shall, in cooperation with the Company, prepare the Registration Statement, in which the Proxy Statement will be included as the prospectus. The Company shall, in cooperation with ScottishPower, file the Proxy Statement with the SEC as its preliminary Proxy Statement and HoldCo shall, in cooperation with the Company, prepare and file with the SEC the Registration Statement in which the Proxy Statement will be included as the prospectus. HoldCo and the Company shall use commercially reasonable efforts to have the Registration Statement declared effective by the SEC as promptly as practicable after such filing. HoldCo and the Company shall

also take any action (other than qualifying as a foreign corporation or taking any action which would subject it to service of process in any jurisdiction where ScottishPower is not now so qualified or subject) required to be taken under applicable state blue sky or securities laws in connection with the issuance of HoldCo ADRs or Merger Ordinary Shares in connection with the Merger. If at any time prior to the Effective Time any event shall occur that should be set forth in an amendment of or a supplement to the Registration Statement, HoldCo shall prepare and file with the SEC such amendment or supplement as soon thereafter as is reasonably practicable. HoldCo, ScottishPower and the Company shall cooperate with the other parties in the preparation of the Registration Statement and the Proxy Statement and any amendment or supplement thereto, and each shall notify the other parties of the receipt of any comments of the SEC with respect to the Registration Statement or the Proxy Statement and of any requests by the SEC for any amendment or supplement thereto or for additional information, and shall provide to the other parties promptly copies of all correspondence between HoldCo, ScottishPower or the Company, as the case may be, or any of their respective Representatives with respect to the Registration Statement or the Proxy Statement. HoldCo, ScottishPower and the Company shall give the other parties and their respective counsel the opportunity to review the Registration Statement and the Proxy Statement and all responses to requests for additional information by and replies to comments of the SEC before their being filed with, or sent to, the SEC. Each of the Company and HoldCo agrees to use commercially reasonable efforts, after consultation with each other, to respond promptly to all such comments of and requests by the SEC and to cause (x) the Registration Statement to be declared effective by the SEC at the earliest practicable time and to be kept effective as long as is necessary to consummate the Merger, and (y) the Proxy Statement to be mailed to the holders of Company Common Stock and Company Preferred Stock entitled to vote at the meeting of the stockholders of the Company at the earliest practicable time.

6.03 Approval of Shareholders. (a) ScottishPower shall, through its Board of Directors, duly call, give notice of, convene and hold a general meeting of its shareholders (the "ScottishPower Shareholders' Meeting"), for the purpose of voting on the Merger in accordance with this Agreement (the "ScottishPower Shareholders' Approval"). Unless the Board of Directors of ScottishPower, based upon the advice of outside counsel, determines in good faith that making such recommendation, or failing to amend, modify or withdraw any previously made recommendation, could reasonably be expected to result in a breach of its fiduciary duties to shareholders imposed by law, ScottishPower shall, through its Board of Directors, include in the Circular the recommendation of the Board of Directors of ScottishPower that the shareholders of ScottishPower approve such matters, and shall use its reasonable best efforts to obtain such approval. In connection with the ScottishPower Shareholders' Meeting, subject to applicable law, (i) ScottishPower shall, as soon as practicable after the date of this Agreement and in accordance with the listing rules of the LSE, prepare and submit to the LSE for approval the Circular and the Listing Particulars, and shall use all reasonable efforts to have such documents formally approved by the LSE and shall thereafter publish the Circular and the Listing Particulars and dispatch the Circular to its shareholders in compliance with all legal requirements applicable to the ScottishPower Shareholders' Meeting and the listing rules of the LSE and (ii) if necessary, after the Circular has been so dispatched, promptly publish or circulate amended, supplemental or supplemented materials and, if required in connection therewith, resolicit votes. In the event that the ScottishPower Shareholders'

Approval is not obtained without the vote having been taken on the date on which the ScottishPower Shareholders' Meeting is initially convened, the Board of Directors of ScottishPower agrees to use its reasonable best efforts to adjourn such ScottishPower Shareholders' Meeting for the purpose of obtaining the ScottishPower Shareholders' Approval and to use commercially reasonable efforts during any such adjournments to obtain the ScottishPower Shareholders' Approval.

(b) The Company shall, through its Board of Directors, duly call, give notice of, convene and hold a meeting of its stockholders (the "Company Stockholders' Meeting") for the purpose of voting on the approval of this Agreement (the "Company Stockholders' Approval") as soon as reasonably practicable after the date hereof. Unless the Board of Directors of the Company, based on the advice of outside counsel, determines in good faith that making such recommendation, or failing to amend, modify or withdraw any previously made recommendation, could reasonably be expected to result in a breach of its fiduciary duties to stockholders imposed by law, the Company shall, through its Board of Directors, include in the Proxy Statement the recommendation of the Board of Directors of the Company that the stockholders of the Company approve this Agreement, and shall use its reasonable best efforts to obtain such approval. The Company shall consult and discuss in good faith with ScottishPower regarding the alternatives available for obtaining the Company Stockholders' Approval. In the event that the Company Stockholders' Approval is not obtained without the vote having been taken on the date on which the Company Stockholders' Meeting is initially convened, the Board of Directors of the Company will use its reasonable best efforts to adjourn such Company Stockholders' Meeting for the purpose of obtaining the Company Stockholders' Approval and to use commercially reasonable efforts during any such adjournments to obtain the Company Stockholders' Approval.

(c) HoldCo shall, through its Board of Directors, at the Annual General Meeting of HoldCo next following the Scheme Date (or earlier, if agreed), include for consideration by its shareholders and, subject to its fiduciary duties, recommend the approval of a resolution to approve amendments to the HoldCo Articles of Association in order to provide, to the extent reasonably possible, for the holders of HoldCo ADRs substantially the same rights as holders of HoldCo Ordinary Shares to receive notice of, attend, speak and vote at general meetings of holders of HoldCo Ordinary Shares (the "ADR Holder Proposal"). In the event the ADR Holder Proposal is not adopted by HoldCo's shareholders at such Annual General Meeting, HoldCo shall, through its Board of Directors, include for consideration by its shareholders and, subject to its fiduciary duties, recommend approval of the ADR Holder Proposal at HoldCo's next Annual General Meeting. With effect from and/or following the Scheme Date, ScottishPower's Articles of Association shall be amended to reflect its status as a subsidiary, provided, however, that if the effect of such amendments would have a material adverse effect on the benefits of the Merger for the holders of Company Common Stock, such amendments may only be effected with the prior written consent of the Company.

6.04 Company Affiliates. At least thirty (30) days prior to the Closing Date the Company shall deliver a letter to HoldCo identifying all persons who, at the time of the Company Stockholders' Meeting, may, in the Company's reasonable judgment, be deemed to be "affiliates" (as such term is used in Rule 145 under the Securities Act) of the Company

("Company Affiliates"). The Company shall use its best efforts to cause each Company Affiliate to deliver to HoldCo on or prior to the Closing Date a written agreement substantially in the form and to the effect of Exhibit C hereto (an "Affiliate Agreement"). HoldCo shall be entitled to place legends as specified in such Affiliate Agreements on the certificates evidencing any HoldCo ADSs to be received by such Company Affiliates pursuant to the terms of this Agreement, and to issue appropriate stop transfer instructions to the transfer agent for the HoldCo ADSs, consistent with the terms of such Affiliate Agreements.

6.05 Auditors' Letters. Each of the Company, HoldCo and ScottishPower shall use all reasonable efforts to cause to be delivered to the other parties and such other parties' Boards of Directors a letter of its independent auditors, dated the date on which the Registration Statement shall become effective, and addressed to the other parties and such other parties' Boards of Directors, in form and substance customary for "comfort" letters delivered by independent public accountants in connection with registration statements on Form F-4 and Form S-4.

6.06 Stock Exchange Listing; Deposit Agreement. (a) HoldCo shall use its commercially reasonable efforts, and the Company shall cooperate in respect thereto, to cause (a) the HoldCo ADSs to be issued in the Merger and under the Company Stock Plans after the Merger in accordance with this Agreement to be approved for listing on the NYSE, subject to official notice of issuance, prior to the Closing Date; and (b) each of (i) the HoldCo Ordinary Shares to be represented by the HoldCo ADSs to be issued in the Merger to be admitted to the Official List of the London Stock Exchange and (ii) the Merger Ordinary Shares to be issued in the Merger to be admitted to the Official List of the London Stock Exchange.

(b) Following the execution of this Agreement, HoldCo shall promptly prepare and shall use its commercially reasonable efforts to have executed a deposit agreement, all on terms and conditions reasonably satisfactory to the Company, that will provide holders of HoldCo ADRs with the right to (i) participate in rights offerings, (ii) attend HoldCo shareholder meetings, (iii) speak at HoldCo shareholder meetings, (iv) call for a poll at HoldCo shareholder meetings, (v) examine documents made available at HoldCo shareholder meetings, (vi) instruct the Depository to vote its HoldCo ADSs in a particular fashion, (vii) generally be counted individually as present and/or voting with respect to resolutions adopted at HoldCo shareholder meetings, and (viii) decide at HoldCo shareholder meetings how to vote on particular resolutions, in each case on the same basis as the holders of HoldCo Ordinary Shares.

6.07 Restructuring of Merger. The parties expressly acknowledge and agree that, although it is their current intention to effect a business combination among themselves in the form contemplated by this Agreement, it may be preferable to effectuate such a business combination by means of an alternative structure in light of the conditions set forth in Sections 7.01(i), 7.02(d) and 7.03(d). Accordingly, if the only conditions to the parties' obligations to consummate the Merger which are not satisfied or waived are receipt of any one or more of those set forth in Sections 7.01(i), 7.02(d) and 7.03(d), and the adoption of an alternative structure (that otherwise substantially preserves for the parties the economic and other material benefits of the Merger) would result in such conditions being satisfied or waived, then the parties shall use their respective reasonable best efforts to effect a business combination among

themselves by means of a mutually agreed upon structure other than the Merger that so preserves such benefits; provided that, prior to closing any such restructured transaction, all material third party and Governmental and Regulatory Authority declarations, filings, registrations, notices, authorizations, consents or approvals necessary to effect such alternative business combination shall have been obtained and all other conditions to the parties' obligations to consummate the Merger, as applied to such alternative business combination, shall have been satisfied or waived.

6.08 Regulatory and Other Approvals. Subject to the terms and conditions of this Agreement and without limiting the provisions of Sections 6.02, 6.03 and 6.06, each of the Company, HoldCo and ScottishPower shall jointly develop a regulatory approval plan and proceed cooperatively and in good faith to, as promptly as practicable, (i) obtain all consents, approvals or actions of, make all filings with and give all notices to Governmental or Regulatory Authorities or any other public or private third parties required of HoldCo, ScottishPower, the Company or any of their Subsidiaries or Joint Ventures to consummate the Merger and the other matters contemplated hereby (including without limitation those set forth on Section 3.04 of the Company Disclosure Letter and Section 4.04 of the ScottishPower Disclosure Letter), and (ii) provide such other information and communications to such Governmental or Regulatory Authorities or other public or private third parties as the other parties or such Governmental or Regulatory Authorities or other public or private third parties may reasonably request in connection therewith. In addition to and not in limitation of the foregoing, each of the parties will (w) take promptly all actions necessary to make the filings required of HoldCo, ScottishPower and the Company or their affiliates under the HSR Act and to comply with filing and approval requirements of the FERC and each state Governmental or Regulatory Authority, (x) comply at the earliest practicable date with any request for additional information received by any such party or its affiliates from the Federal Trade Commission (the "FTC") or the Antitrust Division of the Department of Justice (the "Antitrust Division") pursuant to the HSR Act, (y) cooperate with the other parties in connection with any such party's filings under the HSR Act and in connection with resolving any investigation or other inquiry concerning the Merger or the other matters contemplated by this Agreement commenced by either the FTC or the Antitrust Division or state attorneys general or by the FERC or any State Governmental or Regulatory Authority having jurisdiction with respect to the Merger or another transaction contemplated by this Agreement, and (z) provide to the other parties promptly copies of all correspondence between any such party and the applicable Governmental or Regulatory Authority with respect to any filings referred to in this Section 6.08, and shall give the other parties the opportunity to review such filings and all responses to requests for additional information by such Governmental or Regulatory Authority prior to their being filed therewith.

6.09 Employee Benefit Plans. HoldCo shall use its reasonable best efforts to cause the Company Employee Benefit Plans in effect at December 6, 1998 that had been disclosed to ScottishPower prior to such date to remain in effect until the second anniversary of the Effective Time or, to the extent such Company Employee Benefit Plans are not continued, HoldCo will maintain until such date benefit plans which are no less favorable, in the aggregate, to the employees covered by such Company Employee Benefit Plans provided, however, that nothing contained herein shall be construed as requiring HoldCo or the Surviving Corporation to continue any specific plan or as preventing HoldCo or the Surviving Corporation from (a) establishing and, if necessary, seeking shareholder approval to establish, any other

benefit plans in respect of all or any of the employees covered by such Company Employee Benefit Plans or any other employees, or (b) amending such Company Employee Benefit Plans (or any replacement benefit plans therefor) where required by applicable law or where such amendment is with the consent of the affected employees. From and after the Effective Time, HoldCo shall honor, and shall cause its Subsidiaries to honor, in accordance with its express terms, each existing employment, change of control, severance and termination agreement between the Company or any of its Subsidiaries, and any officer, director or employee of such company, including without limitation all legal and contractual obligations pursuant to outstanding restoration plans, severance plans, bonus deferral plans, vested and accrued benefits and similar employment and benefit arrangements, policies and agreements that had been disclosed to ScottishPower prior to December 6, 1998 and other obligations entered into in accordance with Sections 5.01(d) and (h).

6.10 Company Stock Plan. (a) At the Effective Time, each outstanding option to purchase shares of Company Common Stock (a "Company Stock Option") under the Company Option Plan, whether vested or unvested, shall be converted into an option to acquire, on the same terms and conditions as were applicable under such Company Stock Option, except as amended by this Section 6.10, a number of HoldCo ADSs equal to the product (rounded down to the nearest whole number) of (i) the number of shares of Company Common Stock subject to the option immediately prior to the Effective Time and (ii) the ADS Consideration and the option exercise price per HoldCo ADS at which such option is exercisable shall be the amount (rounded up to the nearest whole cent) obtained by dividing (iii) the option exercise price per share of Company Common Stock at which such option is exercisable immediately prior to the Effective Time by (iv) the ADS Consideration; provided, however, that, in the case of any Company Stock Option to which Section 421 of the Code applies by reason of its qualification under any of Sections 422-424 of the Code ("qualified stock options"), the option exercise price, the number of shares which may be acquired pursuant to such option and the terms and conditions of exercise of such option shall be determined in order to comply with Section 424(a) of the Code; provided, further, that, under no circumstances shall the option exercise price per HoldCo ADS be less than the aggregate par value of the HoldCo Ordinary Shares represented by a HoldCo ADS.

(b) As soon as practicable after the Effective Time, HoldCo shall deliver to the participants in the Company Option Plan appropriate notices setting forth such participants' rights pursuant thereto and the grants pursuant to the Company Option Plan shall continue in effect on the same terms and conditions (subject to the adjustments required by this Section after giving effect to the Merger).

(c) HoldCo shall take all corporate action necessary to have a sufficient number of shares of HoldCo ADSs available for delivery under the Company Option Plan as adjusted in accordance with this Section. As soon as practicable after the Effective Time, HoldCo shall file a registration statement on Form F-8 promulgated by the SEC under the Securities Act (or any successor or other appropriate form) with respect to the HoldCo ADSs subject to such options and shall use its reasonable best efforts to maintain the effectiveness of such registration statement or registration statements (and maintain the current status of the prospectus or prospectuses contained therein) for so long as such options remain outstanding.

(d) For purposes of Section 2.01(c), Company Common Stock shall include shares of restricted Company Common Stock issued under the Company's Non-Employee Director's Stock Compensation Plan, Stock Incentive Plan and Long Term Incentive Plan (collectively, the "Company Restricted Stock Plans"). The Company shall take all corporate action necessary and obtain all relevant consents to ensure that the consideration received under such Section 2.01(c) upon the conversion of each outstanding share of restricted Company Common Stock will continue to be subject to the same restrictions that such shares were subject to under the Company Restricted Stock Plans and the applicable award agreements thereunder, including, without limitation, any forfeiture restrictions, subject to amendment or modification of such plans or award agreements to reflect action of the Board of Directors of the Company taken prior to December 6, 1998 and disclosed to ScottishPower prior to such date.

6.11 Directors' and Officers' Indemnification and Insurance. (a) Except to the extent required by law, until the sixth anniversary of the Effective Time, HoldCo will not take any action so as to amend, modify or repeal the provisions for indemnification of directors or officers contained in the certificate or articles of incorporation or bylaws (or other comparable charter documents) of the Surviving Corporation and its Subsidiaries (which after the Effective Time shall be substantially identical to those of the Company in effect on December 6, 1998) in such a manner as would adversely affect the rights of any individual who shall have served as a director or officer of the Company or any of its Subsidiaries prior to the Effective Time to be indemnified by such corporations in respect of their serving in such capacities prior to the Effective Time.

(b) HoldCo and the Surviving Corporation shall, until the sixth anniversary of the Effective Time, cause to be maintained in effect, to the extent available, the policies of directors' and officers' liability insurance maintained by the Company and its Subsidiaries as of December 6, 1998 (or policies of at least the same coverage and amounts containing terms that are no less advantageous to the insured parties) with respect to claims arising from facts or events that occurred on or prior to the Effective Time; provided that in no event shall HoldCo or the Surviving Corporation be obligated to expend in order to maintain or procure insurance coverage pursuant to this paragraph any amount per annum in excess of two hundred percent (200%) of the aggregate premiums payable by the Company and its Subsidiaries in 1998 (on an annualized basis) for such purpose.

6.12 HoldCo Governance; Additional Matters. (a) Subject to the exercise of fiduciary duties and to the extent permitted by applicable law, HoldCo's Board of Directors shall take action to cause the full Board of Directors of HoldCo at the Effective Time to include Keith McKennon, as Deputy Chairman of HoldCo, and two additional non-executive members of the Company's current Board of Directors to be designated by the Company at least thirty (30) days prior to the Effective Time.

(b) HoldCo shall, promptly following the Effective Time, cause certain of the non-executive members of the Company's Board of Directors immediately prior to the Effective Time who do not become directors of HoldCo pursuant to Section 6.12(a) hereof, and who are willing to so serve, to be elected or appointed as members of an advisory board (the "Advisory Board") established by the Company, the function of which shall be to meet no less frequently

than semi-annually in order to advise the Company's Board of Directors with respect to general business as well as opportunities and activities in the Company's market area and to maintain and develop customer relationships. The Advisory Board shall be chaired by Ian Robinson, and shall also include Duncan Whyte, Richard O'Brien, and such other representatives from the communities served by the Company (including but not limited to non-executive members of the Company's Board of Directors immediately prior to the Effective Time) as shall be mutually agreed by Ian Robinson and Keith McKennon. The members of the Advisory Board who are willing to so serve initially shall be elected or appointed for a term of two years. HoldCo agrees to cause the Company to re-elect or re-appoint each of the initial members of the Advisory Board to one successive one-year term following the initial term; provided, however, that HoldCo shall have no obligation to cause the Company to elect or appoint, or re-elect or re-appoint, and may cause the Company to remove, any member if HoldCo reasonably determines that such member has a conflict of interest that compromises such member's ability to serve effectively as a member of the Advisory Board or any cause exists that otherwise would allow for removal of such person as a director of the Company if such person were a member of the Company's Board of Directors.

(c) Immediately following the Effective Time, the Company's United States headquarters shall continue to be in Portland, Oregon. In recognition of HoldCo's and ScottishPower's commitment to the communities served by the Company, following the Effective Time HoldCo or ScottishPower will contribute to The PacifiCorp Foundation the sum of $5 million.

6.13 Expenses. Except as set forth in Section 8.02, whether or not the Merger is consummated, all costs and expenses incurred in connection with this Agreement and the transactions contemplated hereby shall be paid by the party incurring such cost or expense. The Company shall not be obligated for any fees or expenses relating to HoldCo's obligation to demonstrate the existence of adequate working capital in connection with the filing of the Listing Particulars. Notwithstanding any provision of this Agreement, in no event shall HoldCo, ScottishPower or any affiliate of HoldCo or ScottishPower pay any expenses of the Company, any Company affiliate or any Company stockholder in connection with the transactions contemplated by this Agreement.

6.14 Brokers or Finders. Each of HoldCo, ScottishPower and the Company represents, as to itself and its affiliates, that, except as set forth on Section 6.14 of the Company Disclosure Letter and except for any reasonable fees and expenses that may be paid by HoldCo or ScottishPower to Morgan Stanley Dean Witter Discover, Inc. in connection with the Scheme of Arrangement, no agent, broker, investment banker, financial advisor or other firm or person is or will be entitled to any broker's or finder's fee or any other commission or similar fee in connection with any of the transactions contemplated by this Agreement except Salomon Smith Barney, whose fees and expenses will be paid by the Company in accordance with the Company's agreement with such firm (a true and complete copy of which has been delivered by the Company to ScottishPower prior to December 6, 1998), and Morgan Stanley Dean Witter Discover Inc. whose fees and expenses will be paid by ScottishPower in accordance with ScottishPower's agreement with such firm (a true and complete copy of which has been delivered by ScottishPower to the Company prior to December 6, 1998), and each of HoldCo and

ScottishPower, on the one hand, and the Company, on the other, shall indemnify and hold the other harmless from and against any and all claims, liabilities or obligations with respect to any other such fee or commission or expenses related thereto asserted by any person on the basis of any act or statement alleged to have been made by such party or its affiliate.

6.15 Takeover Statutes. If any "fair price", "moratorium", "control share acquisition" or other form of antitakeover statute or regulation shall become applicable to the transactions contemplated hereby, the Company and the members of the Board of Directors of the Company shall grant such approvals and take such actions as are reasonably necessary so that the transactions contemplated hereby may be consummated as promptly as practicable on the terms contemplated hereby and thereby and otherwise act to eliminate or minimize the effects of such statute or regulation on the transactions contemplated hereby and thereby.

6.16 Convevance Taxes. The Company, HoldCo and ScottishPower shall cooperate in the preparation, execution and filing of all returns, questionnaires, applications or other documents regarding any real property transfer or gains, sales, use, transfer, value added, stock transfer and stamp taxes and duties, any transfer, recording, registration and other fees, and any similar taxes which become payable in connection with the transactions contemplated by this Agreement that are required or permitted to be filed on or before the Effective Time. The Company shall pay, without deduction or withholding (except where such deduction or withholding is required by applicable law) from any amount payable to the holders of Company Common Stock, any such taxes which become payable in connection with the transfer of Company Common Stock in exchange for the Ordinary Share Consideration and the ADS Consideration. The Company shall also pay any stamp duty or stamp duty reserve tax arising in connection with the issue of the HoldCo ADSs and HoldCo ADRs.

6.17 Rate Matters. During the period commencing on December 6, 1998 and ending on the Effective Date, the Company shall, and shall cause its Subsidiaries to, obtain HoldCo's and ScottishPower's approval, not to be unreasonably withheld or delayed, prior to initiating any general rate case and shall consult with HoldCo and ScottishPower prior to making any material changes in its or its Subsidiaries' rates or charges, standards of service or accounting from those in effect on December 6, 1998 and shall further consult with HoldCo and ScottishPower prior to making any filing (or any amendment thereto), or effecting any agreement, commitment, arrangement or consent, whether written or oral, formal or informal, with respect thereto.

6.18 Tax Matters. Each of HoldCo and ScottishPower agrees that:

(a) Prior to the Closing Date, ScottishPower and HoldCo (i) will make the elections necessary pursuant to Section 301.7701-3 of the U.S. Treasury regulations promulgated under the Code to treat UKSub 1 and UKSub 2 as entities disregarded as separate from ScottishPower and HoldCo and (ii) will not change such election during the period beginning on the date such election is effective for U.S. federal income tax purposes and ending on the date that is three years after the Closing Date.

(b) Throughout the period beginning on the date the election described in Section 6.18(a) of this Agreement is effective for U.S. federal income tax purposes and ending on the date that is three years after the Closing Date: (i) ScottishPower and HoldCo will not make an election under Section 301.7701-3 of the U.S. Treasury regulations to treat UKSub 1 or UKSub 2 as an association taxable as a corporation; (ii) ScottishPower, before the Share Transfer, will directly own the whole of the share capital of UKSub 1 and UKSub 2, and HoldCo, after the Share Transfer, will directly own the whole of the share capital of UKSub 1 and UKSub 2; and (iii) ScottishPower and HoldCo will cause UKSub 1 and UKSub 2 to directly own all of the equity interests in the Partnership. Prior to the Closing Date, ScottishPower and HoldCo shall cause the Share Transfer to occur.

(c) Throughout the period beginning at the Effective Time and ending on the date that is three years after the Closing Date, the Partnership will directly own all of the Common Stock of the Surviving Corporation, except for contribution to a controlled subsidiary described in Code Section 368(a)(2)(C) and the regulations promulgated thereunder.

(d) Throughout the period beginning at the Effective Time and ending on the date that is three years after the Closing Date, none of HoldCo, ScottishPower, UKSub 1, UKSub 2, the Partnership, nor any other affiliate of HoldCo or ScottishPower will redeem, acquire, convert, exchange, or cause the Company or any affiliate of the Company to acquire, convert or exchange or arrange for another person to acquire, convert or exchange any of the ADS Consideration or the Ordinary Share Consideration, unless HoldCo has received a written opinion of counsel that such action will not cause those persons who were stockholders of the Company at the time of the Merger to recognize gain or loss for US federal income tax purposes either with respect to the Merger or with respect to a subsequent exchange or conversion;

(e) Neither HoldCo, ScottishPower nor any affiliate of HoldCo or ScottishPower will, directly or indirectly, pay any expense incurred by (i) the Company, (ii) any affiliate of the Company or (iii) any Company stockholder, in each case, in connection with the transactions contemplated by this Agreement.

(f) For a period of three years following the Closing Date, without the receipt of a written opinion of counsel that such action will not affect the tax-free status of the transactions contemplated by this Agreement, neither HoldCo nor any affiliate of HoldCo, will, directly or indirectly, (i) make contributions (whether or not in exchange for shares) or loan additional funds to (x) the Company, (y) any affiliate of the Company or (z) any escrow account, trust or other fund established to pay any expenses incurred by the Company, any affiliate of the Company or any Company stockholder in connection with the transactions contemplated by this Agreement or (ii) permit the Company or any Company affiliate to incur additional indebtedness guaranteed by HoldCo or any HoldCo affiliate;

(g) Neither HoldCo nor any affiliate of HoldCo will, directly or indirectly reimburse (or otherwise pay) any amounts paid to the holders of $1.28 Series, $1.18 Series or $1.16 Series no par serial preferred stock of the Company in connection with the redemption of their preferred stock prior to the Closing Date.

(h) Neither HoldCo, ScottishPower nor any affiliate of HoldCo or ScottishPower will, directly or indirectly, acquire any Company stock except for the Company stock acquired solely in exchange for the ADS Consideration or the Ordinary Share Consideration unless acquired directly from the Company.

6.19 Dividends. HoldCo hereby acknowledges its intention, following the Effective Time, to adopt a practice of paying, with respect to HoldCo Ordinary Shares and HoldCo ADSs, quarterly dividends on regular quarterly dividend dates in roughly equal amounts. After the date hereof, each of HoldCo, ScottishPower and the Company shall coordinate with the other with respect to the declaration of dividends in respect of HoldCo Ordinary Shares and Company Common Stock and the record dates and payment dates with respect thereto prior to the Effective Time, with the intention that the holders of Company Common Stock receive dividends in respect of the Company Common Stock for all periods prior to the Effective Time but do not receive dividends on the ADS Consideration and the Ordinary Share Consideration after the Effective Time in respect of periods prior to the Effective Time.

ARTICLE VII
CONDITIONS

7.01 Conditions to Each Party's Obligation to Effect the Merger. The respective obligation of each party to effect the Merger is subject to the fulfillment, at or prior to the Closing, of each of the following conditions:

(a) Stockholder Approval. This Agreement shall have been approved by the requisite vote of the stockholders of the Company under the BCA and the shareholders of ScottishPower shall have approved the Merger.

(b) Registration Statement; State Securities Laws. The Registration Statement shall have become effective in accordance with the provisions of the Securities Act, and no stop order suspending such effectiveness shall have been issued and remain in effect and no proceeding seeking such an order shall be pending or threatened. HoldCo shall have received all state securities or "Blue Sky" permits and other authorizations necessary to issue the HoldCo ADSs pursuant to this Agreement and under the Company Stock Plans after the Merger.

(c) Exchange Listing. The LSE shall have agreed to admit to the Official List (subject to allotment) the new HoldCo Ordinary Shares to be issued in connection with the Merger and such agreement shall not have been withdrawn and the HoldCo ADSs issuable to the Company stockholders in the Merger and under the Company Stock Plans after the Merger in accordance with this Agreement shall have been authorized for listing on the NYSE, upon official notice of issuance.

(d) HSR Act. Any waiting period (and any extension thereof) applicable to the consummation of the Merger under the HSR Act shall have expired or been terminated.

(e) Injunctions or Restraints. No court of competent jurisdiction or other competent Governmental or Regulatory Authority shall have enacted, issued, promulgated.

enforced or entered any law or order (whether temporary, preliminary or permanent) which is then in effect and has the effect of making illegal or otherwise restricting, preventing or prohibiting consummation of the Merger or the other transactions contemplated by this Agreement.

(f) Exon-Florio. The review and investigation under Exon-Florio shall have been terminated and the President shall have taken no action authorized thereunder.

(g) Power Act; Atomic Energy Act. The final approval of (i) the FERC and (ii) the Nuclear Regulatory Commission under the Atomic Energy Act, with respect to the Merger and the transactions contemplated by this Agreement shall have been obtained.

(h) H.M. Treasury Consent. HoldCo or ScottishPower (as required) shall have received consent from H.M. Treasury pursuant to Section 765 of the U.K. Income and Corporation Taxes Act 1988 in respect of the Merger and any other matter contemplated hereby, or confirmation that no consent is required.

(i) Governmental and Regulatory Consents and Approvals. Other than the filings provided for by Section 1.03 and any filing required in connection with the registration or exemption of HoldCo under the 1935 Act, all consents, approvals and actions of, filings with and notices to any Governmental or Regulatory Authority (including under the HSR Act and Exon-Florio Act and the approvals by FERC pursuant to the Power Act) required of HoldCo, ScottishPower, the Company or any of their Subsidiaries to consummate the Merger and the other matters contemplated hereby shall have been made or obtained (as the case may be) and become Final Orders (as defined in this Section below), and such Final Orders shall not, individually or in the aggregate, contain terms or conditions that would have, or would reasonably be expected to have, a material adverse effect on the Surviving Corporation and its Subsidiaries, taken as a whole. A "Final Order" means an action by the relevant Governmental or Regulatory Authority that has not been reversed, stayed, enjoined, set aside, annulled or suspended, with respect to which any waiting period prescribed by applicable law before the transactions contemplated hereby may be consummated has expired, and as to which all conditions to the consummation of such transactions prescribed by applicable law, regulation or order have been satisfied.

(j) Other Consents and Approvals. The consent or approval of each person (other than a Governmental or Regulatory Authority) whose consent or approval is required of HoldCo, ScottishPower, the Company or any of their Subsidiaries under any Contract in order to consummate the Merger and the other transactions contemplated hereby shall have been obtained, except for those consents and approvals which, if not obtained, would not have, or would not reasonably be expected to have, a material adverse effect on the Company and its Subsidiaries taken as a whole or on the ability of HoldCo, ScottishPower or the Company to consummate the transactions contemplated hereby.

(k) UK Fair Trading Act. Any of:

(i) the Office of Fair Trading (the "OFT") shall have indicated in writing that the Secretary of State for Trade and Industry (the "SOS") in the

exercise of his powers under the Fair Trading Act 1973 (the "FTA") does not intend to refer the Merger or any matter relating thereto to the Monopolies and Mergers Commission ("MMC"); or

(ii) in the event of an MMC reference, the MMC shall have concluded that the Merger does not or may not be expected to operate against the public interest; or

(iii) if on a reference the MMC shall have concluded that the Merger does or may be expected to operate against the public interest, the SOS shall have indicated in writing that it is his intention to approve the Merger,

provided that if any indication by the SOS referred to in (i) or (iii) above is subject to undertakings, assurances or any other terms or conditions. such undertakings, assurances, terms or conditions would not have, or would reasonably be expected not to have, individually or in the aggregate, a material adverse effect on the HoldCo Group taken as a whole.

(l) UK Regulators. Each of the Office of Electricity Regulation ("OFFER") and the Office of Water Services ("OFWAT") shall have indicated:

(i) that it is not its intention to seek any modifications to any conditions of the licenses or appointments held by any member of the HoldCo Group under any applicable statute. law, regulation, order or determination which would have, or would reasonably be expected to have, individually or in the aggregate, a material adverse effect on the HoldCo Group taken as a whole; and

(ii) that it will give such consents and/or directions (if any) as are necessary or appropriate with respect to such licenses or appointments in connection with the Merger on terms which would not have, or would reasonably be expected not to have, individually or in the aggregate, a material adverse effect on the HoldCo Group taken as a whole.

(m) UK Undertakings/Assurances. Neither OFFER nor OFWAT shall have sought undertakings or assurances from any member of the HoldCo Group which would have, or would reasonably be expected to have, individually or in the aggregate, a material adverse effect on the HoldCo Group taken as a whole.

7.02 Conditions to Obligation of HoldCo. ScottishPower and Merger Sub to Effect the Merger. The obligation of HoldCo, ScottishPower and Merger Sub to effect the Merger is further subject to the fulfillment. at or prior to the Closing, of each of the following additional conditions (all or any of which may be waived in whole or in part by HoldCo, ScottishPower and Merger Sub in their sole discretion):

(a) Representations and Warranties. The representations and warranties made by the Company in this Agreement shall be true and correct, in all material respects, taken as a whole, as of the Closing Date as though made on and as of the Closing Date or, in the case of representations and warranties made as of a specified date earlier than the Closing Date on and as

of such earlier date (provided, however, that for purposes of this paragraph (a), no effect shall be given to the reference to the date December 6, 1998 in the first paragraph of Article III), except as affected by the transactions contemplated by this Agreement, and the Company shall have delivered to HoldCo a certificate, dated the Closing Date and executed in the name and on behalf of the Company by its Chairman of the Board, President or any Executive or Senior Vice President, to such effect.

(b) Performance of Obligations. The Company shall have performed and complied with, in all material respects, the agreements, covenants and obligations, taken as a whole, which are required by this Agreement to be so performed or complied with by the Company at or prior to the Closing, and the Company shall have delivered to HoldCo a certificate, dated the Closing Date and executed in the name and on behalf of the Company by its Chairman of the Board, President or any Executive or Senior Vice President, to such effect.

(c) Material Adverse Effect. Since December 6, 1998, no material adverse effect shall have occurred with respect to the Company and its Subsidiaries taken as a whole and there shall exist no facts or circumstances arising after December 6, 1998, which in the aggregate would, or insofar as reasonably can be foreseen, could, when taken together with any breaches or violations of any representations, warranties, covenants and agreements of the Company contained herein, have a material adverse effect on the Company and its Subsidiaries taken as a whole. For purposes of this Section 7.02(c), (i) any tax benefits relating directly to the structure of the transactions contemplated by this Agreement as of the date hereof which are not realized by HoldCo or ScottishPower, and (ii) any adverse effects on the Company and its Subsidiaries resulting from general economic or financial conditions, shall not be taken into account in determining whether a material adverse effect has occurred under this Section 7.02(c).

(d) Tax Opinion. HoldCo, ScottishPower and the Partnership shall have received the opinion, based on appropriate representations of the Company, HoldCo and ScottishPower, of Milbank, Tweed, Hadley & McCloy LLP, special counsel to HoldCo and ScottishPower, dated on or about the date on which the Registration Statement (or the last amendment thereto) shall have become effective, which opinion shall have been confirmed in writing on and as of the Closing Date, to the effect that the Merger will constitute a "reorganization" within the meaning of Code Section 368(a) and that no gain or loss will be recognized for US federal income tax purposes by the stockholders of the Company who exchange Company Common Stock for HoldCo ADSs or Merger Ordinary Shares pursuant to the Merger (except with respect to cash received in lieu of fractional HoldCo ADSs or Merger Ordinary Shares).

(e) Proceedings. All proceedings to be taken on the part of the Company in connection with the transactions contemplated by this Agreement and all documents incident thereto shall be reasonably satisfactory in form and substance to HoldCo, and HoldCo shall have received copies of all such documents and other evidences as HoldCo may reasonably request in order to establish the consummation of such transactions and the taking of all proceedings in connection therewith.

7.03 Conditions to Obligation of the Company to Effect the Merger. The obligation of the Company to effect the Merger is further subject to the fulfillment, at or prior to the Closing, of each of the following additional conditions (all or any of which may be waived in whole or in part by the Company in its sole discretion):

(a) Representations and Warranties. The representations and warranties made by HoldCo, ScottishPower and the Partnership in this Agreement shall be true and correct, in all material respects, taken as a whole, as of the Closing Date as though made on and as of the Closing Date or, in the case of representations and warranties made as of a specified date earlier than the Closing Date, on and as of such earlier date (provided, however, that for purposes of this paragraph (a), no effect shall be given to the reference to the date December 6, 1998 and the date of this Agreement in the first paragraph of Article IV hereof), except as affected by the transactions contemplated by this Agreement, and HoldCo, ScottishPower and Merger Sub shall each have delivered to the Company a certificate, dated the Closing Date and executed in the name and on behalf of HoldCo by its Chairman of the Board, President or any Executive or Senior Vice President or any Executive Director, in the name and on behalf of ScottishPower by its Chairman of the Board, President or any Executive or Senior Vice President and in the name and on behalf of Merger Sub by its Chairman of the Board, President or any Vice President, to such effect.

(b) Performance of Obligations. HoldCo, ScottishPower and Merger Sub shall have performed and complied with, in all material respects, each agreement, covenant and obligation required by this Agreement to be so performed or complied with by HoldCo, ScottishPower or Merger Sub at or prior to the Closing, and HoldCo, ScottishPower and Merger Sub shall each have delivered to the Company a certificate, dated the Closing Date and executed in the name and on behalf of HoldCo by its Chairman of the Board, President or any Executive or Senior Vice President or any Executive Director, in the name and on behalf of ScottishPower by its Chairman of the Board, President or any Executive or Senior Vice President and in the name and on behalf of Merger Sub by its Chairman of the Board, President or any Vice President, to such effect.

(c) Material Adverse Effect. Since December 6, 1998, no material adverse effect shall have occurred with respect to HoldCo, ScottishPower and their respective Subsidiaries taken as a whole and there shall exist no facts or circumstances arising after December 6, 1998 which in the aggregate would, or insofar as reasonably can be foreseen, could, when taken together with any breaches or violations of any representations, warranties, covenants and agreements of HoldCo and ScottishPower contained herein, have a material adverse effect on HoldCo, ScottishPower and their respective Subsidiaries taken as a whole. For purposes of this Section 7.03(c), any adverse effects on HoldCo, ScottishPower and their respective Subsidiaries resulting from general economic or financial conditions shall not be taken into account in determining whether a material adverse effect has occurred under this Section 7.03(c).

(d) Tax Opinion. The Company shall have received the opinion, based on appropriate representations of the Company, HoldCo and ScottishPower, of Stoel Rives LLP, counsel to the Company, and LeBoeuf, Lamb, Greene & MacRae, LLP, special counsel to the

Company, dated on or about the date on which the Registration Statement (or the last amendment thereto) shall have become effective, which opinion shall have been confirmed in writing on and as of the Closing Date to the effect that the Merger will constitute a "reorganization" within the meaning of Code Section 368(a) and that no gain or loss will be recognized for US federal income tax purposes by the stockholders of the Company who exchange Company Common Stock for HoldCo ADSs or Merger Ordinary Shares pursuant to the Merger (except with respect to cash received in lieu of fractional HoldCo ADSs or Merger Ordinary Shares).

(e) Proceedings. All proceedings to be taken on the part of HoldCo, ScottishPower and Merger Sub in connection with the transactions contemplated by this Agreement and all documents incident thereto (other than documentation relating to the Scheme of Arrangement) shall be reasonably satisfactory in form and substance to the Company, and the Company shall have received copies of all such documents and the documentation relating to the Scheme of Arrangement and other evidences as the Company may reasonably request in order to establish the consummation of such transactions and the taking of all proceedings in connection therewith.

ARTICLE VIII
TERMINATION, AMENDMENT AND WAIVER

8.01 Termination. This Agreement may be terminated, and the transactions contemplated hereby may be abandoned, at any time prior to the Effective Time, whether prior to or after the Company Stockholders' Approval or the ScottishPower Shareholders' Approval:

(a) By mutual written agreement of the parties hereto duly authorized by action taken by or on behalf of their respective Boards of Directors;

(b) By either the Company or HoldCo upon notification to the non-terminating party by the terminating party:

(i) at any time after the date which is nine (9) months following December 6, 1998 if the Merger shall not have been consummated on or prior to such date and such failure to consummate the Merger is not caused by a breach of this Agreement by the terminating party; provided, however, that if on such date HoldCo, ScottishPower and the Company and their respective Subsidiaries have not received all of the approvals required in order to satisfy the conditions set forth in Section 7.01(i) but all other conditions to effect the Merger shall be fulfilled or shall be capable of being fulfilled, then, at the option of either HoldCo or the Company (which shall be exercised by written notice), the term of this Agreement shall be extended until the expiration of such date which is eighteen (18) months after December 6, 1998;

(ii) if the Company Stockholders' Approval or the ScottishPower Shareholders' Approval shall not be obtained by reason of the failure to obtain the requisite vote upon a vote actually held at a meeting of such stockholders or shareholders, or any adjournment thereof, called therefor;

(iii) if there has been a material breach of any representation, warranty, covenant or agreement on the part of the non-terminating party set forth in this Agreement (determined in all cases as if the terms "material" or "materially" were not included in any such representation or warranty), which breach is not curable or, if curable, has not been cured within thirty (30) days following receipt by the non-terminating party of notice of such breach from the terminating party which breach, when taken together with any other breaches of representations, warranties, covenants and agreements of the non-terminating party contained in this Agreement, has or would reasonably be expected to have a material adverse effect on the Company and its Subsidiaries taken as a whole; or

(iv) if any court of competent jurisdiction or other competent Governmental or Regulatory Authority shall have issued an order making illegal or otherwise preventing or prohibiting the Merger and such order shall have become final and nonappealable;

(c) By the Company upon five (5) days' prior notice to HoldCo if (i) the Board of Directors of the Company determines in good faith, that a failure to terminate this Agreement could reasonably be expected to result in a breach of its fiduciary duties to stockholders imposed by law by reason of an unsolicited bona fide Alternative Proposal meeting the requirements of clauses (B) and (C) of Section 5.07 having been made; provided that

(A) The Board of Directors of the Company shall have been advised by outside counsel, that notwithstanding a binding commitment to consummate an agreement of the nature of this Agreement entered into in the proper exercise of its applicable fiduciary duties, and notwithstanding all concessions which may be offered by HoldCo in negotiations entered into pursuant to clause (B) below, a failure to reconsider such commitment as a result of such Alternative Proposal could reasonably be expected to result in a breach of its fiduciary duties to stockholders imposed by law, and

(B) prior to any such termination, the Company shall, and shall cause its respective financial and legal advisors to, negotiate with HoldCo to make such adjustments in the terms and conditions of this Agreement as would enable the Company to proceed with the transactions contemplated herein on such adjusted terms;

and provided further that the Company's ability to terminate this Agreement pursuant to this clause (i) is conditioned upon the prior payment by the Company to HoldCo of any amounts owed by it pursuant to Section 8.02(b);

or (ii) the Board of Directors of HoldCo (or any committee thereof) shall have withdrawn or modified in a manner materially adverse to the Company its approval or recommendation of this Agreement or the Merger; or

(d) By HoldCo if the Board of Directors of the Company (or any committee thereof) (i) shall have withdrawn or modified in a manner materially adverse to HoldCo its approval or recommendation of this Agreement or the Merger, (ii) shall fail to reaffirm such approval or recommendation upon HoldCo's request, (iii) shall have approved, recommended or

taken no position with respect to an Alternative Proposal to the stockholders of the Company or (iv) shall resolve to take any of the foregoing actions: or

(e) By the Company if there has been a Change of Control after the Scheme Date and prior to the Effective Time. A "Change of Control" shall occur if any of the following applies: (A) Any "Person", as such term is used in Sections 13(d) and 14(d) of the Exchange Act is or becomes the "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of HoldCo representing 30 percent or more of the combined voting power of HoldCo's outstanding capital stock; (B) the shareholders of HoldCo approve a merger or other consolidation of HoldCo with any other company, other than a merger or consolidation effected to implement a recapitalization of HoldCo (or similar transaction) in which no Person acquires more than 30 percent of the combined voting power of HoldCo's then outstanding securities; (C) a tender or exchange offer is made for the ordinary shares of HoldCo (or securities convertible into ordinary shares of HoldCo) and such offer results in a portion of those securities being purchased and the offeror after the consummation of the offer is the beneficial owner (as determined pursuant to Section 13(d) of the Exchange Act), directly or indirectly, of securities representing at least 30 percent of the voting power of outstanding securities of HoldCo; or (D) HoldCo sells 30 percent or more of its shares of ScottishPower to a buyer that is not a member of HoldCo controlled group of corporations.

8.02 Effect of Termination. (a) If this Agreement is validly terminated by either the Company or HoldCo pursuant to Section 8.01, this Agreement will forthwith become null and void and there will be no liability or obligation on the part of either the Company, HoldCo or ScottishPower (or any of their respective Representatives or affiliates), except (i) that the provisions of Sections 6.13, 6.14 and 6.16, this Section 8.02, and Sections 9.10 and 9.11 will continue to apply following any such termination, (ii) that nothing contained herein shall relieve any party hereto from liability for willful breach of its representations, warranties, covenants or agreements contained in this Agreement and (iii) as provided in paragraphs (b) and (c) below.

(b) In the event that any person or group shall have made an Alternative Proposal and thereafter (i) this Agreement is terminated (x) by the Company pursuant to Section 8.01(c)(i), (y) by HoldCo pursuant to Section 8.01(b)(iii) or Section 8.01(d) or (z) by either party pursuant to Section 8.01(b)(ii) as a result of the Company Stockholders' Approval not being obtained or (ii) this Agreement is terminated for any other reason (other than by reason of the breach of this Agreement by HoldCo or pursuant to Section 8.01(b)(ii) as a result of the ScottishPower Shareholders' Approval not being obtained or Section 8.01(c)(ii)) or 8.01(e) and, in the case of this clause (ii) only, a definitive agreement with respect to such Alternative Proposal is executed within one year after such termination, then the Company shall pay to HoldCo by wire transfer of same day funds, either on the date contemplated in Section 8.01(c) if applicable, or otherwise, within two (2) business days after such amount becomes due, a termination fee of $250,000,000.

(c) In the event that this Agreement is terminated by the Company following a Change of Control, then HoldCo shall pay to the Company, by wire transfer of same day funds, within two (2) business days following such termination. a termination fee of $250,000,000.

(d) In the event that this Agreement is terminated by either party pursuant to Section 8.01(b)(ii) in circumstances in which the termination fee set forth in clause (b) above is not payable, (i) in the case of the Company Stockholders' Approval not being obtained and the ScottishPower Shareholders' Approval having been obtained, the Company shall pay to HoldCo (ii) in the case of the ScottishPower Shareholders' Approval not being obtained and the Company Stockholders' Approval having been obtained, HoldCo shall pay to the Company, in each case an amount equal to $10,000,000.

(e) If the Company fails promptly to pay the amount due pursuant to the preceding paragraphs, and in order to obtain such payment, HoldCo or Merger Sub commences a suit which results in a judgment against the Company for the fee set forth in such paragraph, the Company shall pay to HoldCo or Merger Sub, as the case may be, its cost and expenses (including reasonable attorneys' fees and expenses) in connection with such suit, together with interest on the amount of the fee at the prime rate of The Chase Manhattan Bank in effect on the date such payment was required to be made.

8.03 Amendment. This Agreement may be amended, supplemented or modified by action taken by or on behalf of the respective Boards of Directors of the parties hereto at any time prior to the Effective Time, whether prior to or after the Company Stockholders' Approval or the ScottishPower Shareholders' Approval shall have been obtained, but after such adoption and approval only to the extent permitted by applicable law. No such amendment, supplement or modification shall be effective unless set forth in a written instrument duly executed by or on behalf of each party hereto.

8.04 Waiver. At any time prior to the Effective Time any party hereto, by action taken by or on behalf of its Board of Directors, may to the extent permitted by applicable law (i) extend the time for the performance of any of the obligations or other acts of the other parties hereto, (ii) waive any inaccuracies in the representations and warranties of the other parties hereto contained herein or in any document delivered pursuant hereto or (iii) waive compliance with any of the covenants, agreements or conditions of the other parties hereto contained herein. No such extension or waiver shall be effective unless set forth in a written instrument duly executed by or on behalf of the party extending the time of performance or waiving any such inaccuracy or non-compliance. No waiver by any party of any term or condition of this Agreement, in any one or more instances, shall be deemed to be or construed as a waiver of the same or any other term or condition of this Agreement on any future occasion.

ARTICLE IX
GENERAL PROVISIONS

9.01 Non-Survival of Representations, Warranties, Covenants and Agreements . The representations, warranties, covenants and agreements contained in this Agreement or in any instrument delivered pursuant to this Agreement shall not survive the Merger but shall terminate at the Effective Time, except for the agreements contained in Article I and Article II, in Sections 5.01(o), 5.02(k), 6.09, 6.10, 6.11, 6.12, 6.14, 6.16 and 6.18, this

Article IX and the agreements of the "affiliates" of the Company delivered pursuant to Section 6.04, which shall survive the Effective Time.

9.02 Notices. All notices, requests and other communications hereunder must be in writing and will be deemed to have been duly given only if delivered personally or by facsimile transmission or mailed (first class postage prepaid) to the parties at the following addresses or facsimile numbers:

If to HoldCo, ScottishPower, the Partnership or Merger Sub, to:

Scottish Power plc
1 Atlantic Quay
Glasgow G2 8FP
Facsimile No.: 011-44-141-248-8300
Attn: Company Secretary

with a copy to:

Milbank, Tweed, Hadley & McCloy LLP
1 Chase Manhattan Plaza
New York, N.Y. 10005
Facsimile No.: (212) 530-5219
Attn: M. Douglas Dunn

and to:

Freshfields
65 Fleet Street
London EC4Y 1HS
Facsimile No.: 011-44-171-832-7001
Attn: Simon Marchant

If to the Company, to:

PacifiCorp
700 N.E. Multnomah
Portland, Oregon 97232-4116
Facsimile No.: (503) 813-7250
Attn: Executive Vice President and Chief Operating Officer

with a copy to:

Stoel Rives LLP
900 S.W. Fifth Avenue
Suite 2300
Portland, Oregon 97232
Facsimile No.: (503) 220-2480

Attn: Dexter E. Martin

and to:

LeBoeuf, Lamb, Greene & MacRae, LLP
125 West 55th Street
New York, NY 10019
Facsimile No.: (212) 424-8500
Attn: William S. Lamb

All such notices, requests and other communications will (i) if delivered personally to the address as provided in this Section, be deemed given upon delivery, (ii) if delivered by facsimile transmission to the facsimile number as provided in this Section, be deemed given upon receipt, and (iii) if delivered by mail in the manner described above to the address as provided in this Section, be deemed given upon receipt (in each case regardless of whether such notice, request or other communication is received by any other person to whom a copy of such notice, request or other communication is to be delivered pursuant to this Section). Any party from time to time may change its address, facsimile number or other information for the purpose of notices to that party by giving notice specifying such change to the other parties hereto.

9.03 Entire Agreement; Incorporation of Exhibits. (a) Subject to paragraph (c) below, this Agreement supersedes all prior discussions and agreements among the parties hereto with respect to the subject matter hereof, other than the Confidentiality Agreement, which shall survive the execution and delivery of this Agreement in accordance with its terms, and contains, together with the Confidentiality Agreement, the sole and entire agreement among the parties hereto with respect to the subject matter hereof.

(b) The Company Disclosure Letter, the ScottishPower Disclosure Letter and any Exhibit or Schedule attached to this Agreement and referred to herein are hereby incorporated herein and made a part hereof for all purposes as if fully set forth herein.

(c) Notwithstanding the execution of this Agreement by the parties hereto on the date hereof, this Agreement (other than this Section 9.03(c) which shall have immediate effect) shall not take effect until the Scheme Date; provided, however, that upon the Scheme of Arrangement becoming effective, this Agreement shall be deemed to have been in full force and effect since the date hereof. Prior to the Scheme Date, the Original Agreement shall continue in full force and effect. If ScottishPower gives written notice to PacifiCorp that the Scheme of Arrangement will not become effective, the transactions contemplated by the Original Agreement will proceed as if no notice under Schedule II of the Original Agreement had been received and this Agreement had not been entered into.

9.04 [Intentionally Omitted.]

9.05 Public Announcements. Except as otherwise required by law or the rules of any applicable securities exchange or national market system or any other Regulatory Authority (including the U.K. Takeover Panel) , so long as this Agreement is in effect, HoldCo,

ScottishPower and the Company will not, and will not permit any of their respective Subsidiaries or Representatives to, issue or cause the publication of any press release or make any other public announcement with respect to the transactions contemplated by this Agreement without the consent of the other party, which consent shall not be unreasonably withheld. HoldCo, ScottishPower and the Company will cooperate with each other in the development and distribution of all press releases and other public announcements with respect to this Agreement and the transactions contemplated hereby, and will furnish the other with drafts of any such releases and announcements as far in advance as practicable.

9.06 No Third Party Beneficiary. The terms and provisions of this Agreement are intended solely for the benefit of each party hereto and their respective successors or permitted assigns, and except as provided in Sections 6.09, 6.10, 6.11 and 6.12 (which are intended to be for the benefit of the persons entitled to therein, and may be enforced by any of such persons), it is not the intention of the parties to confer third-party beneficiary rights upon any other person.

9.07 No Assignment; Binding Effect. Neither this Agreement nor any right, interest or obligation hereunder may be assigned by any party hereto without the prior written consent of the other parties hereto and any attempt to do so will be void, except that HoldCo may cause Merger Sub to assign any or all of its rights, interests and obligations hereunder to another direct or indirect wholly-owned Subsidiary of HoldCo, provided that any such Subsidiary agrees in writing to be bound by all of the terms, conditions and provisions contained herein. This Agreement is binding upon, inures to the benefit of and is enforceable by the parties hereto and their respective successors and assigns.

9.08 Headings. The headings used in this Agreement have been inserted for convenience of reference only and do not define, modify or limit the provisions hereof.

9.09 Invalid Provisions. If any provision of this Agreement is held to be illegal, invalid or unenforceable under any present or future law or order, and if the rights or obligations of any party hereto under this Agreement will not be materially and adversely affected thereby, (i) such provision will be fully severable, (ii) this Agreement will be construed and enforced as if such illegal, invalid or unenforceable provision had never comprised a part hereof, and (iii) the remaining provisions of this Agreement will remain in full force and effect and will not be affected by the illegal, invalid or unenforceable provision or by its severance herefrom.

9.10 Governing Law. Except to the extent that the BCA is mandatorily applicable to the Merger and the rights of the stockholders of the Constituent Corporations, this Agreement shall be governed by and construed in accordance with the laws of the State of New York applicable to a contract executed and performed in such State, without giving effect to the conflicts of laws principles thereof.

9.11 Submission to Jurisdiction; Waivers. Each of ScottishPower, HoldCo (on behalf of itself and Merger Sub), the Partnership, UKSub 1, UKSub 2 and the

Company irrevocably agree that any legal action or proceeding with respect to this Agreement or for recognition and enforcement of any judgment in respect hereof brought by another party hereto or its successors or assigns may be brought and determined in the Supreme Court of the State of New York in New York County or in the United States District Court for the Southern District of New York, and each of ScottishPower, HoldCo (on behalf of itself and Merger Sub), the Partnership, and the Company hereby irrevocably submits with regard to any such action or proceeding for itself and in respect to its property, generally and unconditionally, to the nonexclusive jurisdiction of the aforesaid courts. Any service of process to be made in such action or proceeding may be made by delivery of process in accordance with the notice provisions contained in Section 9.02. Each of ScottishPower, HoldCo, the Partnership, Merger Sub, and the Company hereby irrevocably waives, and agrees not to assert, by way of motion, as a defense, counterclaim or otherwise, in any action or proceeding with respect to this Agreement, (a) the defense of sovereign immunity, (b) any claim that it is not personally subject to the jurisdiction of the above-named courts for any reason other than the failure to serve process in accordance with this Section 9.10, (c) that it or its property is exempt or immune from jurisdiction of any such court or from any legal process commenced in such courts (whether through service of notice, attachment prior to judgment, attachment in aid of execution of judgment, execution of judgment or otherwise), and (d) to the fullest extent permitted by applicable law that (i) the suit, action or proceeding in any such court is brought in an inconvenient forum, (ii) the venue of such suit, action or proceeding is improper and (iii) this Agreement, or the subject matter hereof, may not be enforced in or by such courts.

9.12 Enforcement of Agreement. The parties hereto agree that irreparable damage would occur in the event that any of the provisions of this Agreement was not performed in accordance with its specified terms or was otherwise breached. It is accordingly agreed that the parties shall be entitled to an injunction or injunctions to prevent breaches of this Agreement and to enforce specifically the terms and provisions hereof in any court of competent jurisdiction, this being in addition to any other remedy to which they are entitled at law or in equity.

9.13 Certain Definitions. As used in this Agreement:

(a) except as used in Sections 2.03(b), 3.02(c), 3.17 and 6.04, the term "affiliate," as applied to any person, shall mean any other person directly or indirectly controlling, controlled by, or under common control with, that person; for purposes of this definition, "control" (including, with correlative meanings, the terms "controlling," "controlled by" and "under common control with"), as applied to any person, means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of that person, whether through the ownership of voting securities, by contract or otherwise;

(b) a person will be deemed to "beneficially" own securities if such person would be the beneficial owner of such securities under Rule 13d-3 under the Exchange Act, including securities which such person has the right to acquire (whether such right is exercisable immediately or only after the passage of time);

(d) In the event that this Agreement is terminated by either party pursuant to Section 8.01(b)(ii) in circumstances in which the termination fee set forth in clause (b) above is not payable, (i) in the case of the Company Stockholders' Approval not being obtained and the ScottishPower Shareholders' Approval having been obtained, the Company shall pay to HoldCo (ii) in the case of the ScottishPower Shareholders' Approval not being obtained and the Company Stockholders' Approval having been obtained, HoldCo shall pay to the Company, in each case an amount equal to $10,000,000.

(e) If the Company fails promptly to pay the amount due pursuant to the preceding paragraphs, and in order to obtain such payment, HoldCo or Merger Sub commences a suit which results in a judgment against the Company for the fee set forth in such paragraph, the Company shall pay to HoldCo or Merger Sub, as the case may be, its cost and expenses (including reasonable attorneys' fees and expenses) in connection with such suit, together with interest on the amount of the fee at the prime rate of The Chase Manhattan Bank in effect on the date such payment was required to be made.

8.03 Amendment. This Agreement may be amended, supplemented or modified by action taken by or on behalf of the respective Boards of Directors of the parties hereto at any time prior to the Effective Time, whether prior to or after the Company Stockholders' Approval or the ScottishPower Shareholders' Approval shall have been obtained, but after such adoption and approval only to the extent permitted by applicable law. No such amendment, supplement or modification shall be effective unless set forth in a written instrument duly executed by or on behalf of each party hereto.

8.04 Waiver. At any time prior to the Effective Time any party hereto, by action taken by or on behalf of its Board of Directors, may to the extent permitted by applicable law (i) extend the time for the performance of any of the obligations or other acts of the other parties hereto, (ii) waive any inaccuracies in the representations and warranties of the other parties hereto contained herein or in any document delivered pursuant hereto or (iii) waive compliance with any of the covenants, agreements or conditions of the other parties hereto contained herein. No such extension or waiver shall be effective unless set forth in a written instrument duly executed by or on behalf of the party extending the time of performance or waiving any such inaccuracy or non-compliance. No waiver by any party of any term or condition of this Agreement, in any one or more instances, shall be deemed to be or construed as a waiver of the same or any other term or condition of this Agreement on any future occasion.

ARTICLE IX
GENERAL PROVISIONS

9.01 Non-Survival of Representations, Warranties, Covenants and Agreements . The representations, warranties, covenants and agreements contained in this Agreement or in any instrument delivered pursuant to this Agreement shall not survive the Merger but shall terminate at the Effective Time, except for the agreements contained in Article I and Article II, in Sections 5.01(o), 5.02(k), 6.09, 6.10, 6.11, 6.12, 6.14, 6.16 and 6.18, this

Article IX and the agreements of the "affiliates" of the Company delivered pursuant to Section 6.04, which shall survive the Effective Time.

9.02 Notices. All notices, requests and other communications hereunder must be in writing and will be deemed to have been duly given only if delivered personally or by facsimile transmission or mailed (first class postage prepaid) to the parties at the following addresses or facsimile numbers:

If to HoldCo, ScottishPower, the Partnership or Merger Sub, to:

Scottish Power plc
1 Atlantic Quay
Glasgow G2 8FP
Facsimile No.: 011-44-141-248-8300
Attn: Company Secretary

with a copy to:

Milbank, Tweed, Hadley & McCloy LLP
1 Chase Manhattan Plaza
New York, N.Y. 10005
Facsimile No.: (212) 530-5219
Attn: M. Douglas Dunn

and to:

Freshfields
65 Fleet Street
London EC4Y 1HS
Facsimile No.: 011-44-171-832-7001
Attn: Simon Marchant

If to the Company, to:

PacifiCorp
700 N.E. Multnomah
Portland, Oregon 97232-4116
Facsimile No.: (503) 813-7250
Attn: Executive Vice President and Chief Operating Officer

with a copy to:

Stoel Rives LLP
900 S.W. Fifth Avenue
Suite 2300
Portland, Oregon 97232
Facsimile No.: (503) 220-2480

Attn: Dexter E. Martin

and to:

LeBoeuf, Lamb, Greene & MacRae, LLP
125 West 55th Street
New York, NY 10019
Facsimile No.: (212) 424-8500
Attn: William S. Lamb

All such notices, requests and other communications will (i) if delivered personally to the address as provided in this Section, be deemed given upon delivery, (ii) if delivered by facsimile transmission to the facsimile number as provided in this Section, be deemed given upon receipt, and (iii) if delivered by mail in the manner described above to the address as provided in this Section, be deemed given upon receipt (in each case regardless of whether such notice, request or other communication is received by any other person to whom a copy of such notice, request or other communication is to be delivered pursuant to this Section). Any party from time to time may change its address, facsimile number or other information for the purpose of notices to that party by giving notice specifying such change to the other parties hereto.

9.03 Entire Agreement; Incorporation of Exhibits. (a) Subject to paragraph (c) below, this Agreement supersedes all prior discussions and agreements among the parties hereto with respect to the subject matter hereof, other than the Confidentiality Agreement, which shall survive the execution and delivery of this Agreement in accordance with its terms, and contains, together with the Confidentiality Agreement, the sole and entire agreement among the parties hereto with respect to the subject matter hereof.

(b) The Company Disclosure Letter, the ScottishPower Disclosure Letter and any Exhibit or Schedule attached to this Agreement and referred to herein are hereby incorporated herein and made a part hereof for all purposes as if fully set forth herein.

(c) Notwithstanding the execution of this Agreement by the parties hereto on the date hereof, this Agreement (other than this Section 9.03(c) which shall have immediate effect) shall not take effect until the Scheme Date; provided, however, that upon the Scheme of Arrangement becoming effective, this Agreement shall be deemed to have been in full force and effect since the date hereof. Prior to the Scheme Date, the Original Agreement shall continue in full force and effect. If ScottishPower gives written notice to PacifiCorp that the Scheme of Arrangement will not become effective, the transactions contemplated by the Original Agreement will proceed as if no notice under Schedule II of the Original Agreement had been received and this Agreement had not been entered into.

9.04 [Intentionally Omitted.]

9.05 Public Announcements. Except as otherwise required by law or the rules of any applicable securities exchange or national market system or any other Regulatory Authority (including the U.K. Takeover Panel) , so long as this Agreement is in effect, HoldCo,

ScottishPower and the Company will not, and will not permit any of their respective Subsidiaries or Representatives to, issue or cause the publication of any press release or make any other public announcement with respect to the transactions contemplated by this Agreement without the consent of the other party, which consent shall not be unreasonably withheld. HoldCo, ScottishPower and the Company will cooperate with each other in the development and distribution of all press releases and other public announcements with respect to this Agreement and the transactions contemplated hereby, and will furnish the other with drafts of any such releases and announcements as far in advance as practicable.

9.06 No Third Party Beneficiary. The terms and provisions of this Agreement are intended solely for the benefit of each party hereto and their respective successors or permitted assigns, and except as provided in Sections 6.09, 6.10, 6.11 and 6.12 (which are intended to be for the benefit of the persons entitled to therein, and may be enforced by any of such persons), it is not the intention of the parties to confer third-party beneficiary rights upon any other person.

9.07 No Assignment; Binding Effect. Neither this Agreement nor any right, interest or obligation hereunder may be assigned by any party hereto without the prior written consent of the other parties hereto and any attempt to do so will be void, except that HoldCo may cause Merger Sub to assign any or all of its rights, interests and obligations hereunder to another direct or indirect wholly-owned Subsidiary of HoldCo, provided that any such Subsidiary agrees in writing to be bound by all of the terms, conditions and provisions contained herein. This Agreement is binding upon. inures to the benefit of and is enforceable by the parties hereto and their respective successors and assigns.

9.08 Headings. The headings used in this Agreement have been inserted for convenience of reference only and do not define, modify or limit the provisions hereof.

9.09 Invalid Provisions. If any provision of this Agreement is held to be illegal, invalid or unenforceable under any present or future law or order, and if the rights or obligations of any party hereto under this Agreement will not be materially and adversely affected thereby, (i) such provision will be fully severable, (ii) this Agreement will be construed and enforced as if such illegal, invalid or unenforceable provision had never comprised a part hereof, and (iii) the remaining provisions of this Agreement will remain in full force and effect and will not be affected by the illegal, invalid or unenforceable provision or by its severance herefrom.

9.10 Governing Law. Except to the extent that the BCA is mandatorily applicable to the Merger and the rights of the stockholders of the Constituent Corporations, this Agreement shall be governed by and construed in accordance with the laws of the State of New York applicable to a contract executed and performed in such State, without giving effect to the conflicts of laws principles thereof.

9.11 Submission to Jurisdiction; Waivers. Each of ScottishPower, HoldCo (on behalf of itself and Merger Sub), the Partnership, UKSub 1, UKSub 2 and the

Company irrevocably agree that any legal action or proceeding with respect to this Agreement or for recognition and enforcement of any judgment in respect hereof brought by another party hereto or its successors or assigns may be brought and determined in the Supreme Court of the State of New York in New York County or in the United States District Court for the Southern District of New York, and each of ScottishPower, HoldCo (on behalf of itself and Merger Sub), the Partnership, and the Company hereby irrevocably submits with regard to any such action or proceeding for itself and in respect to its property, generally and unconditionally, to the nonexclusive jurisdiction of the aforesaid courts. Any service of process to be made in such action or proceeding may be made by delivery of process in accordance with the notice provisions contained in Section 9.02. Each of ScottishPower, HoldCo, the Partnership, Merger Sub, and the Company hereby irrevocably waives, and agrees not to assert, by way of motion, as a defense, counterclaim or otherwise, in any action or proceeding with respect to this Agreement, (a) the defense of sovereign immunity, (b) any claim that it is not personally subject to the jurisdiction of the above-named courts for any reason other than the failure to serve process in accordance with this Section 9.10, (c) that it or its property is exempt or immune from jurisdiction of any such court or from any legal process commenced in such courts (whether through service of notice, attachment prior to judgment, attachment in aid of execution of judgment, execution of judgment or otherwise), and (d) to the fullest extent permitted by applicable law that (i) the suit, action or proceeding in any such court is brought in an inconvenient forum, (ii) the venue of such suit, action or proceeding is improper and (iii) this Agreement, or the subject matter hereof, may not be enforced in or by such courts.

9.12 Enforcement of Agreement. The parties hereto agree that irreparable damage would occur in the event that any of the provisions of this Agreement was not performed in accordance with its specified terms or was otherwise breached. It is accordingly agreed that the parties shall be entitled to an injunction or injunctions to prevent breaches of this Agreement and to enforce specifically the terms and provisions hereof in any court of competent jurisdiction, this being in addition to any other remedy to which they are entitled at law or in equity.

9.13 Certain Definitions. As used in this Agreement:

(a) except as used in Sections 2.03(b), 3.02(c), 3.17 and 6.04, the term "affiliate," as applied to any person, shall mean any other person directly or indirectly controlling, controlled by, or under common control with, that person; for purposes of this definition, "control" (including, with correlative meanings, the terms "controlling," "controlled by" and "under common control with"), as applied to any person, means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of that person, whether through the ownership of voting securities, by contract or otherwise;

(b) a person will be deemed to "beneficially" own securities if such person would be the beneficial owner of such securities under Rule 13d-3 under the Exchange Act, including securities which such person has the right to acquire (whether such right is exercisable immediately or only after the passage of time);

(c) the term "business day" means a day other than Saturday, Sunday or any day on which banks located in the State of Oregon or London, England are authorized or obligated to close;

(d) the term "knowledge" or any similar formulation of "knowledge" shall mean, with respect to ScottishPower or the Company, the actual knowledge after due inquiry of the executive officers of ScottishPower or the Company and their Subsidiaries, set forth in Section 9.12(d) of the ScottishPower Disclosure Letter or Section 9.12(d) of the Company Disclosure Letter and, with respect to HoldCo, the actual knowledge after due inquiry of the Executive Directors of HoldCo immediately prior to the Effective Date;

(e) any reference to any event, change or effect having a "material adverse effect" on or with respect to an entity (or group of entities taken as a whole) means such event, change or effect is materially adverse to the business, properties, assets, liabilities, financial condition or results of operations of such entity (or of such group of entities taken as a whole);

(f) the term "New Facilities" means new revolving credit facilities and/or amendments to existing revolving credit facilities of not more than £2.6 billion in the aggregate on terms which are not significantly less favorable taken as a whole than the RCF;

(g) the term "person" shall include individuals, corporations, partnerships, trusts, other entities and groups (which term shall include a "group" as such term is defined in Section 13(d)(3) of the Exchange Act);

(h) the term "RCF" means the Revolving Credit Facility dated June 24, 1996 between, inter alia, ScottishPower, the Royal Bank of Scotland plc and Union Bank of Switzerland (the "RCF");

(i) the "Representatives" of any entity means such entity's directors, officers, employees, legal, investment banking and financial advisors, accountants and any other agents and representatives;

(j) except as used in Sections 3.02(d) and 3.17, the term "Subsidiary" means, with respect to any party, any corporation or other organization, whether incorporated or unincorporated, of which more than fifty percent (50%) of either the equity interests in, or the voting control of, such corporation or other organization is, directly or indirectly through Subsidiaries or otherwise, beneficially owned by such party.

(k) "Scheme Consents" means the consents, clearances and approvals referred to in Schedule I;

(l) "Scheme Document" means the document, including an explanatory statement, to be sent to the shareholders of ScottishPower in connection with the Scheme of Arrangement.

(m) any reference to "transactions contemplated hereby," "transactions contemplated hereunder," "transactions contemplated by this Agreement," "transactions

contemplated under this Agreement" or any similar formulation shall include the transaction contemplated by the Scheme of Arrangement; provided, however, that the reference to such phrase appearing in the parenthetical clause in the introductory paragraph of Section 5.02 shall not include the transaction contemplated by the Scheme of Arrangement.

9.14 Counterparts. This Agreement may be executed in any number of counterparts, each of which will be deemed an original, but all of which together will constitute one and the same instrument.

9.15 WAIVER OF JURY TRIAL. EACH PARTY HERETO HEREBY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY IN ANY LEGAL PROCEEDING DIRECTLY OR INDIRECTLY ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE TRANSACTION CONTEMPLATED HEREBY (WHETHER BASED ON CONTRACT, TORT OR ANY OTHER THEORY). EACH PARTY HERETO (A) CERTIFIES THAT NO REPRESENTATIVE, AGENT OR ATTORNEY OF ANY OTHER PARTY HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT SUCH OTHER PARTY WOULD NOT, IN THE EVENT OF LITIGATION, SEEK TO ENFORCE THE FOREGOING WAIVER AND (B) ACKNOWLEDGES THAT IT AND THE OTHER PARTIES HERETO HAVE BEEN INDUCED TO ENTER INTO THIS AGREEMENT BY, AMONG OTHER THINGS, THE MUTUAL WAIVERS AND CERTIFICATIONS IN THIS SECTION.

IN WITNESS WHEREOF, each party hereto has caused this Agreement to be signed by its officer thereunto duly authorized as of the date first above written.

NEW SCOTTISH POWER PLC

By: _____
Name: I M. RUSSELL
Title: DIRECTOR

SCOTTISH POWER PLC

By: _____
Name: I.M. RUSSELL
Title: DIRECTOR

NA GENERAL PARTNERSHIP
By: Scottish Power NA 2 Limited,
a General Partner

By: _____
Name: I. M. RUSSELL
Title: DIRECTOR.

PACIFICORP

By: _____
Name: RICHARD T. O'BRIEN
Title: EVP & C.O.O

For purposes of Section 2.01 only:

SCOTTISH POWER NA 1 LIMITED

By: _____
Name: I M. RUSSELL
Title: DIRECTOR.

For purposes of Section 2.01 only:

SCOTTISH POWER NA 2 LIMITED

By: _____
Name: I. M. RUSSELL
Title: DIRECTOR

SCHEDULE I

SCHEME CONSENTS

1. The approval of the Scheme of Arrangement by a majority in number representing three-fourths in value of the ScottishPower Shareholders present and voting (either in person or by proxy) at the meeting convened by the Court.

2. The approval of the Scheme of Arrangement and the reduction in the capital of ScottishPower, the increase in share capital, the capitalisation of new ScottishPower Shares and the granting of authority to the directors of ScottishPower to allot such Shares, in each case for the purposes of the Scheme of Arrangement by a special resolution of ScottishPower.

3. The consent in writing of the ScottishPower Special Shareholder to the Scheme of Arrangement and the proposed amendments to ScottishPower's Articles of Association, and the approval of such amendments by a special resolution of ScottishPower.

4. The sanction by the Court of the Scheme of Arrangement (with or without modification) and the confirmation by the Court of the reduction in capital by the cancellation of ScottishPower Shares required as part of the Scheme of Arrangement.

5. The approval in writing of the transaction to be effected by the Scheme of Arrangement by the Secretary of State for Scotland and by each UK Regulator whose consent is required, or considered by ScottishPower to be necessary, under the terms of each licence, appointment or other authorisation held by any member of the ScottishPower Group.

6. An indication on satisfactory terms by the Secretary of State for Trade and Industry and by each UK Regulator, as appropriate, that it is not his intention to seek, as a result of the transaction to be effected by the Scheme of Arrangement, any revocation of or modification to any licence, appointment or other authorisation held by any member of the ScottishPower Group, except on satisfactory terms.

7. Neither the Secretary of State for Scotland nor any UK Regulator having sought, as a result of the Scheme of Arrangement, undertakings or assurances from any member of the ScottishPower Group, except on satisfactory terms.

8. The agreement of the LSE to admit the ordinary shares of HoldCo issued and to be issued pursuant to the Scheme of Arrangement to the Official List of the LSE (subject only to allotment) and such agreement not being withdrawn prior to the Scheme Date.

9. The receipt, in each case on satisfactory terms, by HoldCo of:

(i) clearances from the Inland Revenue under section 138 of the Taxation of Chargeable Gains Act 1992 and under section 707 of the Income and Corporation Taxes Act 1988 in respect of the Scheme of Arrangement; and

(ii) confirmation as to the application of section 136 of the Taxation of Chargeable Gains Act 1992 in respect of the Scheme of Arrangement.

10. The consent under the RCF of the Majority Banks (as defined therein) to the Scheme of Arrangement, and/or the replacement of the RCF (in whole or in part) with the New Facilities under which no such consent is required (or consent has been given).

11. Confirmation from the European Investment Bank that it will not require the prepayment of any loan to ScottishPower or its subsidiaries as a result of the change of control of ScottishPower which the Scheme of Arrangement will result in. In the absence of such confirmation, ScottishPower may decide to prepay any such loan.

12. The HoldCo ADRs to be issued pursuant to the Scheme of Arrangement shall have been authorised for listing on the NYSE, upon official notice of issuance.

13. The execution of the replacement deposit agreement in respect of the HoldCo ADRs pursuant to Section 6.06(b).

14. A registration statement to be filed under the Securities Exchange Act of 1934 shall have been filed by HoldCo and declared effective by the SEC.

15. The approval of HoldCo's ordinary shareholders (where required, by a special resolution) (i) to the adoption or amendment of HoldCo's Articles of Association in accordance with Section 4.01(a) (and to the proposed changes to HoldCo's Articles of Association referred to in Section 6.03(c) if the same are to be effective on or prior to the Scheme Date), (ii) to increase the authorised share capital of HoldCo, and to give the directors of HoldCo authority to allot shares under section 80 of the Companies Act 1985, in respect of the ordinary shares of HoldCo to be issued pursuant to the Scheme of Arrangement and the Merger and otherwise for general purposes (iii) to disapply statutory pre-emption rights (iv) to authorise HoldCo to repurchase its own shares (v) to change HoldCo's name conditional upon the Scheme of Arrangement becoming effective and (vi) to appoint directors.

16. Such other approvals, prior to the Scheme Date, of the Shareholders of HoldCo, the board of HoldCo and the board of ScottishPower as may be

required to implement and give effect to the Scheme of Arrangement and the terms of this Agreement.

17. The filing of orders, returns and other documents with the Registrar of Companies in Scotland or with the Court in order to obtain the sanction of the Court for, and to give effect to, the Scheme of Arrangement.

18. Such filings and consents as ScottishPower may reasonably consider necessary or desirable in connection with the Scheme of Arrangement and/or the Merger with stock exchanges or other Governmental or Regulatory Authorities in Australia, Canada, Ireland, Japan and any other applicable jurisdiction (other than the US and the UK).

Definitions

In this Schedule I, the following definitions apply:

Court means the Court of Session, Edinburgh;

ScottishPower Shares means ordinary shares of £0.50p in the capital of ScottishPower; and

UK Regulator means each of the Director General of Electricity Supply, the Director General of Water Services, the Director General of Gas Supply, and the Director General of Telecommunications.

on satisfactory terms means on terms which are satisfactory to Holdco and which would not, or would not reasonably be expected to, have, individually or in the aggregate, a material adverse effect on the Holdco Group taken as a whole.

SCHEDULE II

THE ARTICLES OF ASSOCIATION OF HOLDCO

HoldCo's Articles of Association will have the principal differences from the current Articles of Association of ScottishPower referred to below. There will also be some differences of a minor or technical nature which have not been included below. Holdco's Articles of Association will also include any changes requested by the ScottishPower Special Shareholder or by the LSE and agreed to by ScottishPower.

The number identifying each provision of HoldCo's proposed Articles of Association corresponds (except where otherwise stated) to the numbering of the current ScottishPower Articles of Association.

(a) *Article 6(E) (The Redeemable Shares)*

There is no equivalent of this proposed article in ScottishPower's current Articles of Association. It will set out the rights attaching to non-voting redeemable shares which it is intended that HoldCo will issue in order to have the minimum issued capital required to obtain a trading certificate under section 117 of the Companies Act 1985.

(b) *Article 7 (The HoldCo Special Share)*

This article, which will set out the rights attaching to the one share of £1 in the capital of HoldCo to be issued to the ScottishPower Special Shareholder pursuant to the Scheme of Arrangement (the "Holdco Special Share"), will be amended from the comparable ScottishPower article so that each of the following matters will also be deemed to be a variation requiring prior consent in writing of the holder of the HoldCo Special Share:

(i) the giving by HoldCo of any consent or agreement to any amendment to, deletion of or alteration to the effect of, article 7 of the Articles of Association of ScottishPower (save as referred to below);

(ii) the giving by HoldCo of any consent or agreement to the creation or issue of any shares in the capital of ScottishPower other than an issue of shares upon the issue of which HoldCo will own the full legal and beneficial interest in, and control, shares in the capital of ScottishPower carrying at least 85 per cent. of the voting rights exercisable on a poll at general meetings of ScottishPower;

(iii) the disposal by HoldCo of any of the shares in ScottishPower or of any rights or interest therein, or the entering into by HoldCo of any agreement or arrangement with respect to such shares, or the exercise of any voting or other rights attaching to such shares, such that HoldCo would cease to own the full legal and beneficial interest in, and control,

shares in the capital of ScottishPower carrying at least 85 per cent. of the voting rights exercisable on a poll at general meetings of ScottishPower;

(iv) the giving by HoldCo of any consent or agreement to any abrogation, variation, waiver or modification of any of the rights or privileges attaching to any shares in ScottishPower such that HoldCo would cease to own the full legal and beneficial interest in, and control, shares in the capital of ScottishPower carrying at least 85 per cent. of the voting rights exercisable on a poll at general meetings of ScottishPower; and

(v) any other act or omission to act by HoldCo or the Directors of New ScottishPower which results in HoldCo ceasing to own the full legal and beneficial interest in, and control, shares in the capital of ScottishPower carrying at least 85 per cent. of the voting rights exercisable on a poll at general meetings of ScottishPower.

The existing article 7 of ScottishPower's Articles is to be deleted and replaced by an article which ensures that the events set out in paragraphs (i), (ii) and (iv) above do not occur without the prior written consent of HoldCo. ScottishPower's Articles of Association will also include any changes requested by the ScottishPower Special Shareholder and agreed to by ScottishPower.

(c) *Article 50 (Disclosure of Interests in Shares)*

This article, which will relate to the disclosure of interests in shares, will be amended from the comparable ScottishPower article to remove references to certain interim arrangements included in ScottishPower's Articles in connection with the initial flotation of ScottishPower.

(d) *Article 51 (Limitations on Shareholdings)*

This article, which will set out restrictions on persons holding or controlling the right to cast 15 per cent. or more of the votes at general meetings, will be amended from the comparable ScottishPower article to remove references to certain interim arrangements included in ScottishPower's Articles of Association in connection with the initial flotation of ScottishPower.

(e) *Article 98 (Number of Directors to Retire)*

This article, which will relate to the number of directors to retire from office by rotation, will be amended from the comparable ScottishPower article in accordance with the new London Stock Exchange requirement that all directors shall retire by rotation at least every three years.

(f) *Article 123 (Borrowing Powers)*

This article will, if considered necessary by ScottishPower, be amended from the comparable ScottishPower article to reflect the new UK Financial Reporting

Standard FRS10. Any such amendment may include provisions to the effect that, in calculating the borrowing limit, no goodwill or intangible assets will be deducted except the amount that has been amortised in accordance with FRS10.

(g) *Article 130 (Interim Dividends)*

This article, which will relate to the ability of the Directors to pay interim dividends, may, if considered necessary or desirable by ScottishPower, be amended from the comparable ScottishPower article to clarify that the Directors may declare and pay any dividends, including final dividends, and not just interim dividends. This relates to the proposed move to quarterly dividend payments.

(h) *Article 160 (ADR Depositaries)*

Amendments will be made in accordance with Section 6.03(c) of this Agreement, although these amendments may not be made prior to the Scheme Date.

EXHIBIT A

Scheme of Arrangement
(under section 425 of the Companies Act 1985)

between Scottish Power plc and the Scheme Shareholders (as hereinafter defined) and the Special Shareholder (as hereinafter defined)

1. Preliminary

(A) In this Scheme of Arrangement, unless inconsistent with the subject or context, the following expressions shall bear the following meanings:

business day means any day other than a Saturday or Sunday on which banks are generally open for business in England and Wales;

Court means the Court of Session in Edinburgh;

Court Meeting means the meeting of holders of ScottishPower Shares convened by interlocutor of the Court pursuant to section 425 of the Companies Act 1985 for • • 1999 to consider and, if thought fit, approve this Scheme;

CREST means a relevant system (as defined in the CREST Regulations) in respect of which CRESTCo is the operator (as defined in the CREST Regulations);

CRESTCo means CRESTCo Limited;

CREST Regulations means the Uncertificated Securities Regulations 1995 (SI 1995 No. 3272) as from time to time amended;

holder includes any person entitled by transmission;

new ScottishPower Shares means new ordinary shares of 50 pence each in the capital of ScottishPower;

New ScottishPower means New Scottish Power plc;

New ScottishPower Special Share means the special rights non-voting redeemable preference share of £1 in the capital of New ScottishPower;

New Shares means ordinary shares of [50 pence] each in the capital of New ScottishPower;

Record Date means the business day immediately preceding the Scheme Date;

Scheme Date means the date on which this Scheme becomes effective in accordance with clause 6 of this Scheme;

Scheme Record Date means the business day immediately preceding the date of the hearing of the Court at which the Scheme is sanctioned;

Scheme Shareholder means a holder of Scheme Shares as at 5.30 p.m. on the Record Date;

Scheme Shares means:

(a) all ScottishPower Shares in issue at the date of this Scheme;

(b) all (if any) other ScottishPower Shares in issue immediately prior to the Court Meeting; and

(c) all (if any) further ScottishPower Shares which may be in issue at 5.30 p.m. on the Scheme Record Date;

ScottishPower means Scottish Power plc;

ScottishPower Shares means ordinary shares of 50 pence each in the capital of ScottishPower;

ScottishPower Special Share means the special rights non-voting redeemable preference share of £1 in the capital of ScottishPower;

Special Shareholder means the Secretary of State for Scotland, the holder of the ScottishPower Special Share;

this Scheme means this Scheme of Arrangement in its present form or with any modification thereof or addition thereto or condition approved or imposed by the Court; and

uncertificated or *in uncertificated form* means recorded on the relevant register as in uncertificated form, being held in uncertificated form in CREST and title to the object of which by virtue of the CREST Regulations may be transferred by means of CREST.

(B) The authorised share capital of ScottishPower as at the date of this Scheme is £ • divided into • ScottishPower Shares, of which • have been issued and are fully paid up (and the remainder are unissued), and one ScottishPower Special Share which has been issued and is fully paid up.

(C) New ScottishPower was incorporated as a public limited company on • • 1999 under the name New ScottishPower. The authorised share capital of New ScottishPower at the date of this Scheme is £ • divided into • New Shares, of which • have been issued and are fully paid up (and the remainder are unissued) and the New ScottishPower Special Share which has not been issued.

(D) The purpose of this Scheme is to provide for the cancellation of the Scheme Shares and the ScottishPower Special Share and the issue of new ScottishPower Shares with an aggregate nominal value equal to that of the shares so cancelled to New ScottishPower in consideration of the allotment by New ScottishPower of New Shares to the Scheme Shareholders and the allotment by New ScottishPower of the New ScottishPower Special Share to the Special Shareholder.

(E) New ScottishPower has agreed, and it is proposed that the Special Shareholder will agree, to appear by Counsel on the hearing of the Petition for the sanction by the Court of this Scheme, to consent thereto and to undertake to be bound thereby and to execute or procure to be executed all such documents, and to do or procure to be done all such acts and things, as may be necessary or desirable to be executed or done by them respectively for the purpose of giving effect to this Scheme.

2. The Scheme

ScottishPower Cancellation

1.(a) The share capital of ScottishPower shall be reduced by cancelling the Scheme Shares and the ScottishPower Special Share.

(b) Forthwith and contingently upon the said reduction of capital taking effect:

(i) the share capital of ScottishPower shall be increased to its former amount by the creation of such number of new ScottishPower Shares as shall be of an aggregate nominal amount equal to the aggregate nominal amount of the shares cancelled pursuant to sub-clause (a) of this clause 1;

(ii) ScottishPower shall apply the credit arising in its books of account on the reduction of capital pursuant to sub-clause (a) of this clause 1 in paying up, in full at par, the new ScottishPower Shares created pursuant to sub-clause (b)(i) of this clause 1 and shall allot and issue the same, credited as fully paid, to New ScottishPower and/or its nominee(s); and

(iii) ScottishPower will become a wholly owned subsidiary of New ScottishPower.

New Shares

2.(a) In consideration of the cancellation of the Scheme Shares and the ScottishPower Special Share and the issue of the new ScottishPower Shares to New ScottishPower and/or its nominee(s) pursuant to clause 1 of this Scheme, New ScottishPower shall (subject to the provisions of sub-clause (c) of this clause 2):

(i) allot and issue (credited as fully paid) New Shares to the Scheme Shareholders on the following basis:

For each Scheme Share held at 5.30 p.m. on the Record Date, one New Share

save that for any person holding New Shares as at 5.30 p.m. on the Record Date his entitlement to receive New Shares pursuant to this clause 2 shall be reduced by the number of New Shares he holds at that time; and

(ii) allot and issue (credited as fully paid) the New ScottishPower Special Share to the Special Shareholder.

(b) The New Shares to be issued pursuant to sub-clause (a)(i) of this clause 2 shall rank pari passu as a single class of shares inter se and shall rank in full for all dividends or distributions made, paid or declared after the Scheme Date on the ordinary share capital of New ScottishPower.

(c) The provisions of sub-clause (a) of this clause 2 shall be subject to any prohibition or condition imposed by law. Without prejudice to the generality of the foregoing, if, in respect of any Scheme Shareholder who is a citizen, resident or national of any jurisdiction outside the United Kingdom ("overseas shareholder"), New ScottishPower is advised that the allotment and issue of New Shares pursuant to this clause 2 would infringe the laws of any jurisdiction outside the United Kingdom [(other than the US)] or would require New ScottishPower to observe any governmental or other consent or any registration, filing or other formality [(other than the US)], then New ScottishPower may determine that no New Shares shall be allotted or issued to such overseas shareholder under this clause 2, but shall instead be allotted to a nominee appointed by New ScottishPower, as a trustee for such overseas shareholder, on terms that the nominee shall, as soon as practicable following the Scheme Date, sell the New Shares so allotted at the best price which can reasonably be obtained and shall account for the net proceeds of such sale (after the deduction of all expenses and commissions, including value added tax payable thereon) by sending a cheque or warrant to such overseas shareholder in accordance with the provisions of clause 3 below. None of ScottishPower, New ScottishPower, any nominee referred to in this sub-clause (c) or any broker or agent of any of them shall have any liability for any loss arising as a result of the timing or terms of any such sale.

Certificates and payment

3.(a) Not later than five (5) business days after the Scheme Date, New ScottishPower shall send by post to the allottees of the New Shares and to the allottee of the New ScottishPower Special Share allotted and issued pursuant to clause 2 of this Scheme certificates in respect of such shares, save that where Scheme Shares are held in uncertificated form, New ScottishPower will procure that CRESTCo is instructed to credit to the appropriate stock account in CREST of the Scheme Shareholder concerned such shareholder's entitlement to New Shares.

(b) Not later than five (5) business days following the sale of any relevant New Shares pursuant to clause 2(c), New ScottishPower and/or the nominee shall satisfy the cash consideration payable by it by despatching to the persons respectively entitled thereto cheques and/or warrants by post.

(c) All certificates required to be sent by ScottishPower pursuant to sub-clause (a) of this clause 3 and all cheques or warrants required to be sent by New ScottishPower and/or any nominee referred to in clause 2(c) of this Scheme shall be sent through the post in pre-paid envelopes addressed to the persons respectively entitled thereto at their respective addresses appearing in the register of members of ScottishPower at the close of business on the Record Date (or, in the case of joint holders, to the address of that one of the joint holders whose name stands first in the register in respect of the joint holding) or in accordance with any special instructions regarding communications received at the registered office of ScottishPower prior to the Record Date.

(d) None of ScottishPower, New ScottishPower, any nominee referred to in clause 2(c) or any agent of any of them shall be responsible for any loss or delay in transmission of certificates, cheques or warrants sent in accordance with this clause 3.

(e) The preceding sub-clauses of this clause 3 shall take effect subject to any prohibition or condition imposed by law.

Certificates representing Scheme Shares and the ScottishPower Special Share

4. With effect from and including the Scheme Date, all certificates representing holdings of Scheme Shares and the ScottishPower Special Share shall cease to be valid in respect of such holdings and the holders of such shares shall be bound at the request of ScottishPower to deliver such certificates for cancellation to ScottishPower or to any person appointed by ScottishPower to receive the same.

Mandates

5. Each mandate in force at 5.30 p.m. on the Record Date relating to the payment of dividends on Scheme Shares and each instruction then in force as to notices and other communications from ScottishPower shall, unless and until varied or revoked, be deemed as from the Scheme Date to be a valid and effective mandate or instruction to New ScottishPower in relation to the corresponding New Shares to be allotted and issued pursuant to this Scheme.

Scheme Date

6. This Scheme shall become effective as soon as an office copy of the interlocutor of the Court sanctioning this Scheme under section 425 of the Act and confirming under section 137 of the Act the reduction of capital proposed under this Scheme shall have been duly delivered to the Registrar of Companies for registration and the interlocutor and relative minute have been registered by him.

7. Unless this Scheme shall have become effective on or before • • 1999 or such later date, if any, as the Court may allow, it shall lapse.

Modification

8. ScottishPower and New ScottishPower may jointly consent on behalf of all persons concerned to any modification of or addition to this Scheme or to any condition which the Court may think fit to approve or impose.

Dated the • day of • 1999

EXHIBIT B

	Column A	Column B
Proportion of HoldCo Ordinary Shares represented by HoldCo ADSs	not more than 75%	not less than 25%
Proportion of Merger Ordinary Shares	not more than 75%	not less than 25%

EXHIBIT C

[Form of Affiliate's Agreement]

[Date]

[name]

[address]

Ladies and Gentlemen:

I have been advised that as of the date hereof I may be deemed to be an "affiliate" of PacifiCorp, an Oregon corporation (the "Company"), as that term is defined for purposes of paragraphs (c) and (d) of Rule 145 of the rules and regulations (the "Rules and Regulations") of the Securities and Exchange Commission (the "Commission") under the Securities Act of 1933, as amended (the "Act"). Neither my entering into this agreement, nor anything contained herein, shall be deemed an admission on my part that I am such an "affiliate".

Pursuant to the terms of the Amended and Restated Agreement and Plan of Merger dated as of December 6, 1998, as amended as of January 29, 1999 and February 9, 1999 and amended and restated as of January 23, 1999 (the "Merger Agreement"), by and among New Scottish Power plc, a public limited company incorporated under the laws of Scotland ("HoldCo"), Scottish Power plc, a public limited company incorporated under the laws of Scotland, NA General Partnership, a Nevada general partnership (the "Partnership"), and the Company providing for the merger of a wholly-owned subsidiary of the Partnership with and into the Company (the "Merger"), and as a result of the Merger, I may receive shares of HoldCo's American Depositary Shares, each representing four HoldCo Ordinary Shares (the "HoldCo Securities"), in exchange for the shares of common stock, without par value, of the Company owned by me at the Effective Time (as defined in the Merger Agreement) of the Merger.

I represent and warrant to HoldCo that in such event:

A. I shall not make any sale, transfer or other disposition of the HoldCo Securities in violation of the Act or the Rules and Regulations

B. I have carefully read this letter and the Merger Agreement and discussed its requirements and other applicable limitations upon my ability to sell, transfer or otherwise dispose of HoldCo Securities, to the extent I felt necessary, with my counsel or counsel for the Company.

C. I have been advised that the issuance of HoldCo Securities to me pursuant to the Merger has been registered with the Commission under the Act on a Registration Statement on Form F-4. However, I have also been advised that, since at the time the Merger was submitted for a vote of the stockholders of the Company I may have been deemed to have been an affiliate of the Company and a distribution by me of HoldCo Securities has not been registered under the Act, the HoldCo Securities must be held by me indefinitely unless (i) a distribution of HoldCo Securities by me has been registered under the Act, (ii) a sale of HoldCo Securities by me is made in conformity with the volume and other limitations of Rule 145 promulgated by the Commission under the Act or (iii) in the opinion of counsel reasonably acceptable to HoldCo, some other exemption from registration is available with respect to a proposed sale, transfer or other disposition of the HoldCo Securities by me.

D. I understand that HoldCo is under no obligation to register the sale, transfer or other disposition of HoldCo Securities by me or on my behalf or to take any other action necessary in order to make compliance with an exemption from registration available.

E. I also understand that stop transfer instructions will be given to HoldCo's transfer agents with respect to the HoldCo Securities and that there will be placed on the certificates for the HoldCo Securities, or any substitutions therefor, a legend stating in substance:

"The shares represented by this certificate were issued in a transaction to which Rule 145 promulgated under the Securities Act of 1933, as amended, applies. The shares represented by this certificate may only be transferred in accordance with the terms of an agreement dated _____, ____, between the registered holder hereof and _____ (the "Corporation"), a copy of which agreement is on file at the principal offices of the Corporation."

F. I also understand that unless the transfer by me of my HoldCo Securities has been registered under the Act or is a sale made in conformity with the provisions of Rule 145, HoldCo reserves the right to put the following legend on the certificates issued to my transferee:

"The shares represented by this certificate have not been registered under the Securities Act of 1933, as amended, and were acquired from a person who received such shares in a transaction to which Rule 145 promulgated under such Act applies. The shares have been acquired by the holder not with a view to, or for resale in connection with, any distribution thereof within the meaning of such Act and may not be sold, pledged or otherwise transferred except in accordance with an exemption from the registration requirements of such Act."

It is understood and agreed that the legends set forth in paragraph E and F above shall be removed by delivery of substitute certificates without such legend if the undersigned shall have delivered to HoldCo a copy of a letter from the staff of the Commission, or an opinion of counsel reasonably acceptable to HoldCo to the effect that such legend is not required for purposes of the Act.

Very truly yours,

_____

Name:

Accepted this ____ day of

_____, ____, by:

NEW SCOTTISH POWER plc

By:_____

Name:
Title:

Richard T. O'Brien
William D. Landels
Henry H. Hewitt
Nolan E. Karras
Keith R. McKennon
Robert G. Miller

In addition, each of the Company and the ScottishPower parties agree that Section 2.01(d) of the Merger Agreement shall be amended to read as follows:

(d) UKSub 1 shall continue to be the owner of a 10% general partnership interest in the Partnership, and UKSub 2 shall continue to be the owner of a 90% general partnership interest in the Partnership.

Please indicate your acknowledgement and agreement to the foregoing by signing this letter agreement in the space provided below.

Very truly yours,

SCOTTISH POWER U.K. PLC

By: _____
Name:
Title:

SCOTTISH POWER PLC

By: _____
Name:
Title:

ScottishPower

November 28, 1999

PacifiCorp
700 N.E. Multnomah
Portland, Oregon 97232-4116

ScottishPower

Ladies and Gentlemen:

Reference is hereby made to that certain Amended and Restated Agreement and Plan of Merger, dated as of December 6, 1998, as amended as of January 29, 1999 and February 9, 1999, and amended and restated as of February 23, 1999 (the "Merger Agreement") by and among Scottish Power plc, a public limited company incorporated under the laws of Scotland ("HoldCo"), Scottish Power U.K. plc, a public limited company incorporated under the laws of Scotland ("ScottishPower"), NA General Partnership, a Nevada general partnership indirectly wholly owned by ScottishPower (the "Partnership") and PacifiCorp, an Oregon corporation (the "Company"), and with respect to Section 2.01 of the Merger Agreement, Scottish Power NA 1 Limited, a limited liability company incorporated under the laws of Scotland ("UKSub1") and Scottish Power NA 2 Limited, a limited liability company incorporated under the laws of Scotland ("UKSub2" and, together with HoldCo, ScottishPower, the Partnership and UKSub1, the "ScottishPower Parties"). Capitalized terms used herein, but not otherwise defined, shall have the meanings assigned to such terms in the Merger Agreement.

Each of the Company and the ScottishPower Parties hereby agree that the following persons shall be the Directors and Executive Officers of the Surviving Corporation until their successors shall have been duly elected or appointed and qualified or until their earlier death, resignation or removal in accordance with the Surviving Corporation's Articles of Incorporation and Bylaws:

Directors

Ian Robinson, Chairman
Ian M. Russell
Kenneth L. Vowles
Alan V. Richardson

Executive Officers

Alan V. Richardson, Chief Executive Officer
Richard T. O'Brien, President & Chief Operating Officer

ScottishPower

NA GENERAL PARTNERSHIP

By: _____
Name:
Title:

SCOTTISH POWER NA 1 LIMITED

By: _____
Name:
Title:

SCOTTISH POWER NA 2 LIMITED

By: _____
Name:
Title:

AGREED AND ACCEPTED:

PACIFICORP

By: Richard T. O'Brien
Name: RICHARD T. O'BRIEN
Title: EVP & COO

EXHIBIT B

BYLAWS
of
PACIFICORP
As Amended Effective May 23, 2005

ARTICLE I

OFFICES

The principal office of the Company in the State of Oregon shall be in the City of Portland, County of Multnomah. The Company may have such other offices, either within or without the State of Oregon, as the Board of Directors may designate or as the business of the Company may, from time to time, require.

ARTICLE II

SHAREHOLDERS

2.1 Annual Meeting. The annual meeting of the shareholders shall be held on the second Wednesday in the month of May in each year, unless a different date is fixed by the Board of Directors, at such time and place as are fixed by the Board of Directors and stated in the notice of the meeting. The failure to hold an annual meeting at the time stated herein shall not affect the validity of any corporate action.

2.2 Special Meetings. Special meetings of the shareholders, for any purpose or purposes, unless otherwise prescribed by statute, may be called by the Chairman of the Board, the President or the Board of Directors and shall be called by the Chairman of the Board or the President upon the written demand, describing the purpose or purposes for which the meeting is to be held, signed, dated and delivered to the Company's Secretary, of the holders of not less than one-tenth of all the outstanding votes of the Company entitled to be cast on any issue proposed to be considered at the meeting.

2.3 Place of Meetings. Meetings of the shareholders shall be held at such place, within or without the State of Oregon, as may be designated by the Board of Directors.

2.4 Notice of Meetings. Written or printed notice stating the date, time and place of the meeting and, in the case of a special meeting or where otherwise required by law, the purpose or purposes for which the meeting is called shall be mailed by the Secretary to each shareholder entitled to vote at the meeting, and if required by law, to such additional shareholders as are entitled to receive notice, at the shareholder's address shown in the Company's stock transfer books, with postage thereon prepaid, not less than 10 nor more than 60 days before the date of the meeting.

2.5 Fixing of Record Date. For the purpose of determining shareholders entitled to notice of a shareholders' meeting, to demand a special meeting, to vote or to take any other action, or shareholders entitled to receive payment of any dividend, or in order to make a determination of

shareholders for any other proper purpose, the Board of Directors of the Company may fix a future date as the record date for any such determination of shareholders, such date in any case to be not more than 70 days nor, in the case of a meeting, less than 10 days before the meeting or action requiring a determination of shareholders. The record date for any meeting, vote or other action of the shareholders shall be the same for all voting groups.

2.6 Shareholders' List for Meeting. After a record date for a meeting has been fixed, the Company shall prepare an alphabetical list of the names of all its shareholders entitled to notice of the shareholders' meeting. The list shall be arranged by voting group and within each voting group by class or series of shares and show the address of and number of shares held by each shareholder. The shareholders' list shall be available for inspection by any shareholder, upon proper demand as may be required by law, beginning two business days after notice of the meeting is given for which the list was prepared and continuing through the meeting, at the Company's principal office or at a place identified in the meeting notice in the city where the meeting will be held. The Company shall make the shareholders' list available at the meeting and any shareholder or the shareholder's agent or attorney shall be entitled to inspect the list at any time during the meeting or any adjournment. Refusal or failure to prepare or make available the shareholders' list does not affect the validity of action taken at the meeting.

2.7 Quorum; Adjournment.

(a) Shares entitled to vote as a separate voting group may take action on a matter at a meeting only if a quorum of those shares exists with respect to that matter. A majority of the votes entitled to be cast on the matter by the voting group constitutes a quorum of that voting group for action in that matter.

(b) A majority of votes represented at the meeting, whether or not a quorum, may adjourn the meeting from time to time to a different time and place without further notice to any shareholder of any adjournment, except as may be required by law. At such adjourned meeting at which a quorum is present, any business may be transacted that might have been transacted at the meeting originally held.

(c) Once a share is represented for any purpose at a meeting, it shall be deemed present for quorum purposes for the remainder of the meeting and for any adjournment of that meeting unless a new record date is set for the adjourned meeting. A new record date shall be set if the meeting is adjourned to a date more than 120 days after the date fixed for the original meeting.

2.8 Voting Requirements; Action Without Meeting.

(a) If a quorum exists, action on a matter, other than the election of directors, is approved if the votes cast by the shares entitled to vote favoring the action exceed the votes cast opposing the action, unless a greater number of affirmative votes is required by law or the Company's Restated Articles of Incorporation. If any share of capital stock of the Company is entitled to more or less than one vote on any matter, every reference in these Bylaws to a majority or other proportion of shares shall refer to such a majority or other proportion of votes entitled to be cast.

(b) Action required or permitted by law to be taken at a shareholders' meeting may be taken without a meeting if the action is taken by all the shareholders entitled to vote on the action. The action must be evidenced by one or more written consents describing the action taken, signed by all the shareholders entitled to vote on the action and delivered to the Secretary for inclusion in the minutes or filing with the Company's records. Such action shall not be effective unless, at least 10 days before the action is taken, any non-voting shareholder entitled to notice of the proposed action is given written notice of the proposed action as required by law. Action taken under this section is effective when the last shareholder signs the consent, unless the consent specifies an earlier or later effective date.

2.9 Proxies. A shareholder may vote shares in person or by proxy by signing an appointment. A shareholder may appoint a proxy by signing an appointment form either personally or by the shareholder's attorney-in-fact. An appointment of a proxy shall be effective when received by the Secretary or other officer of the corporation authorized to tabulate votes.

2.10 Notice of Business. At any meeting of the shareholders, only such business shall be conducted as shall have been brought before the meeting (a) by or at the direction of the Board of Directors or (b) by any shareholder of the Company who is a beneficial or record holder at the time of giving of the notice provided for in this Section 2.10, who shall be entitled to vote at such meeting and who complies with the notice procedures set forth in this Section 2.10. For business to be properly brought before a shareholder meeting by a shareholder, the shareholder must have given timely notice thereof in writing to the Secretary. To be timely, a shareholder's notice must be delivered to or mailed and received at the principal executive offices of the Company as follows: (a) for annual meetings, not less than 45 days nor more than 75 days prior to the date in the current year corresponding to the day and month of mailing of the Company's proxy statement for the prior year's annual meeting, and (b) for other meetings, not less than 90 days nor more than 120 days prior to the date of the meeting; provided, however, that in the event that less than 100 days' notice or prior public disclosure of the date of such other meeting is given or made, notice by the shareholder to be timely must be received no later than the close of business on the 10th day following the day on which such notice of the date of such other meeting was mailed or such public disclosure was made. A shareholder's notice to the Secretary shall set forth as to each matter the shareholder proposes to bring before the meeting (a) a brief description of the business desired to be brought before the meeting and the reasons for conducting such business at the meeting, (b) the name and address of the shareholder proposing such business, (c) the class and number of shares of the Company which are beneficially owned by the shareholder and (d) any material interest of the shareholder in such business. If the shareholder is not a shareholder of record at the time of giving the notice, the notice shall be accompanied by appropriate documentation of the shareholder's claim of beneficial ownership. Notwithstanding anything in these Bylaws to the contrary, no business shall be conducted at a shareholder meeting except in accordance with the procedures set forth in this Section 2.10. The officer presiding at the meeting shall, if in the officer's opinion the facts warrant, determine and declare to the meeting that business was not properly brought before the meeting in accordance with the provisions of these Bylaws, and if such officer should so determine, such officer shall so declare to the meeting and any such business not properly brought before the meeting shall not be transacted. Notwithstanding the foregoing provisions of this Section 2.10, a shareholder shall also comply with all applicable requirements of the Securities Exchange Act of 1934, as amended, and the rules and regulations thereunder with respect to the matters set forth in this Section 2.10.

2.11 Nomination of Directors. Only persons who are nominated in accordance with the procedures set forth in these Bylaws shall be eligible to serve as directors. Nominations of persons for election to the Board of Directors of the Company may be made at a meeting of shareholders (a) by or at the direction of the Board of Directors or (b) by any shareholder of the Company who is a beneficial or record holder at the time of giving of notice provided for in this Section 2.11, who shall be entitled to vote for the election of directors at the meeting and who complies with the notice procedures set forth in this Section 2.11. Such nominations, other than those made by or at the direction of the Board of Directors, shall be made pursuant to timely notice in writing to the Secretary. To be timely, a shareholder's notice shall be delivered to or mailed and received at the principal executive offices of the Company not less than 60 days nor more than 90 days prior to the meeting; provided, however, that in the event that less than 70 days' notice or prior public disclosure of the date of the meeting is given or made, notice by the shareholder to be timely must be received no later than the close of business on the 10th day following the day on which such notice of the date of the meeting was mailed or such public disclosure was made. Such shareholder's notice shall set forth (a) as to each person whom the shareholder proposes to nominate for election or reelection as a director all information relating to such person that is required to be disclosed in solicitations of proxies for election of directors, or is otherwise required, in each case pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended (including such person's written consent to being named in the proxy statement as a nominee and to serving as a director if elected); and (b) as to the shareholder giving the notice (i) the name and address of such shareholder and (ii) the class and number of shares of the Company which are beneficially owned by such shareholder. If the shareholder is not a shareholder of record at the time of giving the notice, the notice shall be accompanied by appropriate documentation of the shareholder's claim of beneficial ownership. At the request of the Board of Directors, any person nominated by the Board of Directors for election as a director shall furnish to the Secretary that information required to be set forth in a shareholder's notice of nomination which pertains to the nominee. No person shall be eligible to serve as a director of the Company unless nominated in accordance with the procedures set forth in this Section 2.11. The officer presiding at the meeting shall, if in the officer's opinion the facts warrant, determine and declare to the meeting that a nomination was not made in accordance with the procedures prescribed by the Bylaws, and if such officer should so determine, such officer shall so declare to the meeting and the defective nomination shall be disregarded. Notwithstanding the foregoing provisions of this Section 2.11, a shareholder shall also comply with all applicable requirements of the Securities Exchange Act of 1934, as amended, and the rules and regulations thereunder with respect to the matters set forth in this Section 2.11.

2.12 Conduct of Meeting. The officer presiding at any meeting of the shareholders shall have authority to determine the agenda and order of business at the meeting and to adopt such rules and regulations as may be necessary or desirable to promote the fair and efficient conduct of the business of the meeting.

ARTICLE III

BOARD OF DIRECTORS

3.1 Duties of Board of Directors; Election. All corporate powers shall be exercised by or under the authority of, and the business and affairs of the Company shall be managed under the direction of, its Board of Directors, which shall be divided into three classes, as nearly equal in

number as possible, with one class being elected each year. Members of a class shall be elected by the shareholders, by a plurality of the votes cast at the meeting.

3.2 Number, Election and Qualification. The exact number of directors may, within the limits of not less than nine (9) nor more than twenty-one (21) set forth in Article VI of the Company's Restated Articles of Incorporation, be fixed and increased or decreased from time to time by resolution of the Board of Directors. Directors shall hold office for a term of three years, and until their successors are elected and qualified or the number of directors is decreased; provided, however, that the term of office of any director shall not extend beyond the regular quarterly meeting of the Board of Directors following the date the director reaches age 70; and, provided further, that the term of any director who is also an employee of the Company shall expire at the date of the employee's retirement as an employee. No reduction in the number of directors shall shorten the term of any incumbent director.

3.3 Regular Meetings. The Board of Directors may provide the time and place, either within or without the State of Oregon, for the holding of regular meetings of the Board of Directors without other notice.

3.4 Special Meetings. Special meetings of the Board of Directors may be called by or at the request of the Chairman of the Board, the President or any two directors. The person or persons authorized to call special meetings of the Board of Directors may fix any place, either within or without the State of Oregon, as the place for holding any special meeting of the Board of Directors called by them.

3.5 Notice. Notice of the date, time and place of any special meeting of the Board of Directors shall be given at least 48 hours prior to the meeting by notice communicated in person, by telephone, telegraph, teletype or other form of wire or wireless communication, or by mail or private carrier. If mailed, notice shall be deemed effective when deposited in the United States mail addressed to the director at the director's business address, with postage thereon prepaid. Notice by all other means shall be deemed effective when received by or on behalf of the director. Except as otherwise provided by law or in the Company's Restated Articles of Incorporation, neither the business to be transacted at, nor the purpose of, any regular or special meeting of the Board of Directors need be specified in the notice or waiver of notice of such meeting.

3.6 Quorum. One third of the total number of directors fixed in accordance with Section 3.2 of these Bylaws shall constitute a quorum for the transaction of business at any meeting of the Board of Directors. If less than a quorum is present at a meeting, a majority of the directors present may adjourn the meeting from time to time without further notice.

3.7 Manner of Acting. The act of the majority of the directors present at a meeting at which a quorum is present shall be the act of the Board of Directors, unless a different number is provided by law, the Restated Articles of Incorporation or these Bylaws.

3.8 Vacancies. Any vacancy, including a vacancy resulting from an increase in the number of directors, occurring on the Board of Directors may be filled by the shareholders, the Board of Directors or the affirmative vote of a majority of the remaining directors if less than a quorum of the Board of Directors or by a sole remaining director. Any directorship not filled by the directors shall

be filled by election at an annual meeting or at a special meeting of shareholders called for that purpose; if the vacant office was held by a director elected by a voting group of shareholders, then only the holders of shares of that voting group are entitled to vote to fill the vacancy. A director elected to fill a vacancy shall be elected to serve until the next meeting of shareholders at which directors are elected and shall continue to serve until a successor shall be elected and qualified or there is a decrease in the number of directors. A vacancy that will occur at a specific later date, by reason of a resignation or otherwise, may be filled before the vacancy occurs, but the new director may not take office until the vacancy occurs.

3.9 Compensation. By resolution of the Board of Directors, the directors may be paid a reasonable compensation for their services as directors, and their expenses, if any, of attendance at each meeting of the Board of Directors; provided, that no director who is also a full-time officer or employee of the Company shall receive additional compensation as a director. No such payment shall preclude any director from serving the Company in any other capacity and receiving compensation therefor.

3.10 Presumption of Assent. A director of the Company who is present at a meeting of the Board of Directors or a committee of the Board of Directors shall be deemed to have assented to the action taken unless (a) the director's dissent or abstention from the action is entered in the minutes of the meeting, (b) the director delivers a written notice of dissent or abstention to the action to the presiding officer of the meeting before the adjournment thereof or to the Company immediately after the adjournment of the meeting or (c) the director objects at the beginning of the meeting or promptly upon the director's arrival to the holding of the meeting or transacting business at the meeting. The right to dissent or abstain shall not apply to a director who voted in favor of the action.

3.11 Executive Committee. The Board of Directors, as soon as may be after its election in each year, shall by resolution adopted by a majority of all the Directors in office when the action is taken, designate from among its members an Executive Committee to consist of the officer designated as Chief Executive Officer and two or more other directors. Such Committee shall have and may exercise all of the powers of the Board during the intervals between its meetings which may be lawfully delegated, subject to such limitations as may be provided by resolution of the Board. The Board shall have the power at any time to change the membership of such Committee and to fill vacancies in it. The Executive Committee may make rules for the conduct of its business and may appoint such committees and assistants as it may deem necessary. A majority of the members of such Committee shall be a quorum. The Executive Committee shall elect one of its members as chairman.

3.12 Other Committees. The Board of Directors, by resolution adopted by a majority of all the Directors in office when the action is taken, from time to time may establish, fix the membership, define the duties and appoint the members of each of such other committees of the Board of Directors as it shall determine. One-third of the members of each such other committee, but in no case fewer than two directors, shall be a quorum of the committee.

ARTICLE III – A

SPECIAL NUCLEAR COMMITTEE

3A.1 Establishment of Committee; Membership. The Board of Directors shall establish a Special Nuclear Committee. The members of the Special Nuclear Committee shall be elected by the Board of Directors from their number. The membership of the Special Nuclear Committee shall consist of three directors, or such larger number as the Board of Directors, from time to time, shall determine. No director may serve on the Special Nuclear Committee unless such director is a citizen of the United States of America. A majority of the members of the Special Nuclear Committee shall at all times be made up of directors ("Independent Directors") who are not current or former employees of the Company or of any other affiliated entity (a) that owns, directly or indirectly through one or more subsidiaries, a majority of the outstanding capital stock of the Company, (b) a majority of the outstanding equity securities of which is owned, directly or indirectly through one or more subsidiaries, by the Company, or (c) a majority of the outstanding equity securities of which is owned, directly or indirectly through one or more subsidiaries, by any entity referred to in clause (a) of this paragraph 3A.1.

3A.2 Term; Removal. Each member of the Special Nuclear Committee shall serve for a term commencing on the date of election to the Special Nuclear Committee and ending when such member's term as a director expires. During any director's term as a member of the Special Nuclear Committee, such member shall not be removed except for willful and continued failure by such member to substantially perform his or her duties to the Company in accordance with these bylaws, or such member's conviction of fraud, embezzlement, theft or other criminal conduct involving a felony.

3A.3 Regular Meetings. Regular meetings of the Special Nuclear Committee may be held at such places and at such times as the members of the Special Nuclear Committee may by vote from time to time determine, and if so determined, no notice thereof need be given.

3A.4 Special Meetings. Special meetings of the Special Nuclear Committee may be held at any time and at any place when called by two or more members of the Special Nuclear Committee, reasonable notice thereof being given to each member of the Special Nuclear Committee, or at any time without call or formal notice, provided all the members of the Special Nuclear Committee are present or waive notice thereof by a writing which is filed with the records of the meeting. In any case it shall be deemed sufficient notice to a member of the Special Nuclear Committee to send notice by mail or telegram at least forty-eight hours before the meeting addressed to such member at his or her usual or last known business or residence address.

3A.5 Quorum. A majority of the members of the Special Nuclear Committee shall constitute a quorum for the transaction of business, but a lesser number may adjourn any meeting from time to time, and the meeting may be held as adjourned without further notice. Except as otherwise provided, when a quorum is present at any meeting, a majority of the members in attendance there at shall decide any question brought before such meeting.

3A.6 Vacancies. If the office of any member of the Special Nuclear Committee, one or more, elected by the Board of Directors pursuant to 3A.1 of this Article III-A, becomes vacant by

reason of death, resignation, removal, disqualification or otherwise, the Board of Directors shall choose a successor or successors from among the members of the Board of Directors who are citizens of the United States of America, who shall hold office for the unexpired term. Such successors shall be chosen in such a manner to ensure that, after giving effect to their selection, a majority of the members of the Special Nuclear Committee are Independent Directors, as such term is defined in 3A.1 of this Article III-A.

3A.7 Nuclear Authority Delegated to Special Nuclear Committee. Except as otherwise provided in 3A.8 of this Article III-A, the Special Nuclear Committee shall have sole discretion and decision-making authority on behalf of the Company as to all matters involving any interests that the Company may hold, now or in the future, in any nuclear power facility, whether such ownership interest is direct or indirect. Without limiting the generality of the foregoing, the Special Nuclear Committee shall, except as otherwise provided in 3A.8 of this Article III-A, have sole decision-making authority with respect to all matters relating to the operation, maintenance, contribution of capital, decommissioning, and fuel cycle matters with respect to all such nuclear power facilities. The Special Nuclear Committee shall report to the Board of Directors on a quarterly basis with respect to its activities, but such reports shall be for informational purposes only, and any powers that the Board of Directors generally might otherwise have with respect to any such matters are, except as otherwise provided in this Article III-A, permanently and irrevocably delegated to the Special Nuclear Committee.

3A.8 Certain Decisions Reserved to Board of Directors. Notwithstanding 3A.7 of this Article III-A, after consultation with the Special Nuclear Committee, the Board of Directors shall have, with respect to any nuclear power facility in which the Company has a direct or indirect interest, the following rights:

(a) The right to determine to sell, lease or otherwise dispose of the Company's interest in any such facility;

(b) The right to authorize and determine the budget related to the facility; and

(c) The right to take any action with respect to any such nuclear facility that is ordered by the Special Nuclear Committee or any other governmental agency or court of competent jurisdiction.

3A.9 Access to Restricted Information. To the extent that the Company, by virtue of its ownership of any direct or indirect interest in any nuclear power facility, obtains any so-called "Restricted Data" as to which access is restricted pursuant to the provisions of the Atomic Energy Act of 1954, as amended, or any rules, regulations or orders of the Nuclear Regulatory Commission, access to any such information shall be limited solely to the members of the Special Nuclear Committee, and the members of the Special Nuclear Committee shall not, without the permission of the Nuclear Regulatory Commission, reveal any such information to any foreign citizen or other person with whom it shall be unlawful to share any such information.

3A.10 Report of Foreign Influence; Whistle Blower Protections. In the event that any member of the Special Nuclear Committee believes that any action by a foreign citizen is designed to influence such member's behavior with respect to any nuclear power facility to the detriment of

the national interest of the United States of America, such member is authorized and directed to report such behavior to the Nuclear Regulatory Commission. The Company hereby extends to each member of the Special Nuclear Committee the full protection afforded by the so-called "whistle blower" regulations of the Nuclear Regulatory Commission as codified at 10 C.F.R. §50.7, and agrees that the phrase "protected activity" used therein shall include, with respect to each member of the Special Nuclear Committee, any action or decision made by any such member pursuant to this Article III-A of these bylaws, including any votes cast by any such member.

3A.11 Amendments to Bylaw Provisions Relating to Special Nuclear Committee. Notwithstanding Article IX of these bylaws, the provisions of this Article III-A shall not, without the prior consent of the Nuclear Regulatory Commission, be amended or repealed unless and until (a) the provisions of the Atomic Energy Act of 1954, as amended, or the applicable regulations thereunder, are amended such as to remove the current provisions thereof restricting foreign ownership of nuclear power facilities, or (b) the Company shall, with the consent of the Nuclear Regulatory Commission, have disposed of all of its interests in any nuclear power facilities. In the event that either such condition shall have been met, the Company shall, prior to amending or repealing the provisions of this Article III-A, notify the Nuclear Regulatory Commission of its intent to effect such amendment or repeal.

ARTICLE IV

OFFICERS

4.1 Number. The officers of the Company shall be a Chairman of the Board (who shall be a Director of the Company), a President, one or more Vice Presidents (who may be distinguished from one another by such designations as the Board of Directors may specify), a Secretary, a Treasurer, and if the Board of Directors shall deem such an officer desirable, a Controller. Each of the aforesaid officers shall be appointed by the Board of Directors. The Board of Directors shall designate one of the officers of the Company (who shall also be a Director of the Company) as Chief Executive Officer. Other officers and assistant officers may be appointed as determined by the Board of Directors. Any two or more offices may be held by the same person.

4.2 Appointment and Term of Office. With the exception of the initial appointment of any new officer or assistant officer, or the initial election of an officer to another or different office, which may be at any meeting of the Board of Directors, the officers of the Company shall be appointed annually at the first meeting of the Board of Directors held after each annual meeting of the shareholders. If the appointment of officers shall not be held at such meeting, such appointment shall be held as soon thereafter as conveniently may be. Each officer shall hold office until a successor shall have been duly appointed and shall have qualified or until such officer's death, resignation, or removal from office in the manner hereinafter provided.

4.3 Removal. Any officer or agent appointed by the Board of Directors may be removed by the Board of Directors with or without cause, but such removal shall be without prejudice to the contract rights, if any, of the person so removed. The appointment of an officer does not itself create contract rights.

4.4 Vacancies. A vacancy in any office because of death, resignation, removal,

disqualification or otherwise, may be filled by the Board of Directors for the unexpired portion of the term.

4.5 Chairman of the Board. The Chairman of the Board of Directors shall preside at all meetings of the Board of Directors and shall perform other duties assigned by the Board of Directors.

4.6 Chief Executive Officer. The Chief Executive Officer shall be the chief executive officer of the Company and, subject to the control of the Board of Directors, shall in general supervise and control all of the business and affairs of the Company.

4.7 President. The President shall perform all duties incident to the office of President and such other duties as from time to time may be assigned by the Chief Executive Officer or the Board of Directors.

4.8 Vice Presidents. Each of the Vice Presidents shall perform such duties as from time to time may be assigned by the Chief Executive Officer or the Board of Directors.

4.9 Treasurer. The Treasurer shall perform the duties usually pertaining to such office and such other duties as from time to time may be assigned by the Chief Executive Officer or the Board of Directors. The Treasurer shall give a bond for faithful discharge of the Treasurer's duties in such sum and with such surety or sureties as the Board of Directors shall determine.

4.10 Secretary. The Secretary shall have the responsibility for preparing minutes of all meetings of the directors and shareholders and for authenticating records of the Company. The Secretary shall in addition perform other duties assigned by the Chief Executive Officer or the Board of Directors.

4.11 Other Officers. Other officers and assistant officers shall perform such duties as from time to time may be assigned to each of them by the Chief Executive Officer or the Board of Directors.

4.12 Salaries. The salaries of the officers shall be fixed from time to time by the Board of Directors, and no officer shall be prevented from receiving such salary because the officer is also a director of the Company.

ARTICLE V

INDEMNIFICATION

The Company shall indemnify to the fullest extent not prohibited by law any person who is made, or threatened to be made, a party to an action, suit or proceeding, whether civil, criminal, administrative, investigative, or otherwise (including an action, suit or proceeding by or in the right of the Company) by reason of the fact that the person is or was a director, officer, employee or agent of the Company or a fiduciary within the meaning of the Employee Retirement Income Security Act of 1974 with respect to any employee benefit plan of the Company, or serves or served at the request of the Company as a director, officer, employee or agent, or as a fiduciary of an employee benefit plan, of another corporation, partnership, joint venture, trust or other enterprise. The Company shall pay for or reimburse the reasonable expenses incurred by any such person in any such proceeding in advance of the final disposition of the proceeding to the fullest extent not prohibited by law. This Article shall not be deemed exclusive of any other provisions for indemnification or advancement of expenses of directors, officers, employees, agents and fiduciaries that may be included in any statute, bylaw, agreement, general or specific action of the Board of Directors, vote of shareholders or otherwise.

ARTICLE VI

ISSUANCE OF SHARES

6.1 Certificates for Shares.

(a) Certificates representing shares of the Company shall be in form determined by the Board of Directors. Such certificates shall be signed by the Chairman of the Board, the President or a Vice President, and by the Secretary or an Assistant Secretary or the Treasurer or an Assistant Treasurer and may be sealed with the seal of the Company or a facsimile thereof. All certificates for shares shall be consecutively numbered or otherwise identified. The signatures of officers upon a certificate may be facsimiles.

(b) Every certificate for shares of stock that are subject to any restriction on transfer pursuant to the Restated Articles of Incorporation, the Bylaws, applicable securities laws, agreements among or between shareholders or any agreement to which the Company is a party shall have conspicuously noted on the face or back of the certificate either the full text of the restriction or a statement of the existence of such restriction and that the Company retains a copy of the restriction. Every certificate issued when the Company is authorized to issue more than one class or series of stock shall set forth on its face or back either the full text of the designations, relative rights, preferences and limitations of the shares of each class and series authorized to be issued and the authority of the Board of Directors to determine variations for future series or a statement of the existence of such designations, relative rights, preferences and limitations and a statement that the Company will furnish a copy thereof to the holder of such certificate upon written request and without charge.

(c) All certificates surrendered to the Company for transfer shall be canceled, and no new certificate shall be issued until the former certificate for a like number of shares shall have been

surrendered and canceled, except that in case of a lost, destroyed or mutilated certificate a new one may be issued therefor upon such terms and indemnity to the Company as the Board of Directors prescribes.

6.2 Transfer of Shares. Transfer of shares of the Company shall be made only on the stock transfer books of the Company by the holder of record thereof or by the holder's legal representative, who shall furnish proper evidence of authority to transfer, or by the holder's attorney thereunto authorized by power of attorney duly executed.

6.3 Transfer Agent and Registrar. The Board of Directors may from time to time appoint one or more transfer agents and one or more registrars for the shares of the Company, with such powers and duties as the Board of Directors determines by resolution.

6.4 Officer Ceasing to Act. If the person who signed a share certificate, either manually or in facsimile, no longer holds office when the certificate is issued, the certificate is nevertheless valid.

ARTICLE VII

CONTRACTS, LOANS, CHECKS AND OTHER INSTRUMENTS

7.1 Contracts. The Board of Directors may authorize any officer or officers, or agent or agents to enter into any contract or execute and deliver any instrument in the name of and on behalf of the Company, and such authority may be general or confined to specific instances.

7.2 Loans. No loans shall be contracted on behalf of the Company and no evidence of indebtedness shall be issued in its name unless authorized by a resolution of the Board of Directors. Such authority may be general or confined to specific instances.

7.3 Checks, Drafts, etc. All checks, drafts or other orders for the payment of money and notes or other evidences of indebtedness issued in the name of the Company shall be signed by such officer or officers, or agent or agents of the Company and in such manner as shall from time to time be determined by resolution of the Board of Directors.

7.4 Deposits. All funds of the Company not otherwise employed shall be deposited from time to time to the credit of the Company in such banks, trust companies or other depositaries as the Board of Directors or officers of the Company designated by the Board of Directors may select; or be invested as authorized by the Board of Directors.

ARTICLE VIII

MISCELLANEOUS PROVISIONS

8.1 Seal. The corporate seal of the Company shall be circular in form and shall bear an inscription containing the name of the Company, the year 1910 and the state of incorporation.

8.2 Severability. Any determination that any provision of these Bylaws is for any reason inapplicable, invalid, illegal or otherwise ineffective shall not affect or invalidate any other provision

of these Bylaws.

8.3 Waiver of Notice.

(a) A shareholder may at any time waive any notice required by these Bylaws, the Restated Articles of Incorporation or the provisions of any applicable law. Such waiver shall be in writing, be signed by the shareholder entitled to the notice and be delivered to the Company for inclusion in the minutes for filing with the corporate records. A shareholder's attendance at a meeting waives objection to (i) lack of notice or defective notice of the meeting, unless the shareholder at the beginning of the meeting objects to holding the meeting or transacting business at the meeting and (ii) consideration of a particular matter at the meeting that is not within the purpose or purposes described in the meeting notice, unless the shareholder objects to considering the matter when it is presented.

(b) A director may at any time waive any notice required by these Bylaws, the Restated Articles of Incorporation or the provisions of any applicable law. Except as set forth below, such waiver must be in writing, be signed by the director entitled to the notice, must specify the meeting for which notice is waived and must be filed with the minutes or corporate records. A director's attendance at or participation in a meeting waives any required notice to the director of the meeting unless the director at the beginning of the meeting, or promptly upon the director's arrival, objects to holding the meeting or transacting business at the meeting and does not thereafter vote for or assent to action taken at the meeting.

8.4 Engineering Decisions in Washington. Engineering decisions pertaining to any project or engineering activities in the State of Washington shall be made by the engineer designated by or in accordance with resolutions of the Board of Directors.

8.5 Oregon Control Share Act. Sections 60.801 to 60.816 of the Oregon Business Corporation Act, known as the "Oregon Control Share Act," do not apply to acquisitions of the Company's voting shares (as defined in the Oregon Control Share Act).

ARTICLE IX

AMENDMENTS

The Company's Bylaws may be amended or repealed or new bylaws may be made: (a) by the affirmative vote of the holders of record of a majority of the outstanding capital stock of the Company entitled to vote thereon, irrespective of class, given at any annual or special meeting of the shareholders; provided that notice of the proposed amendment, repeal or new bylaw or bylaws be included in the notice of such meeting or waiver thereof; or (b) by the affirmative vote of a majority of the entire Board of Directors given at any regular meeting of the Board, or any special meeting thereof; provided that notice of the proposed amendment, repeal or new bylaw or bylaws be included in the notice of such meeting or waiver thereof or all of the directors at the time in office be present at such meeting.

Certificate

I, Secretary of PacifiCorp, a corporation organized under the laws of the State of Oregon, HEREBY CERTIFY that the foregoing printed pages, entitled on page 1 "Bylaws of PacifiCorp as Amended effective May 23, 2005" constitute a full and true copy of the Bylaws of said corporation as amended to the date of this certificate.

WITNESS my hand this _____ day of _____, _____.

_____

Secretary

EXHIBIT E

PACIFICORP
UNCONSOLIDATED STATEMENT OF INCOME
12 MONTHS ENDED DECEMBER 31, 2005

		TOTAL CORPORATION	PROPOSED FINANCING	TOTAL PROFORMA
UTILITY OPERATING INCOME				
OPERATING REVENUES		3,438,952,088		3,438,952,088
OPERATION AND MAINTENANCE EXPENSE				
OPERATION		1,929,373,826		1,929,373,826
MAINTENANCE		311,914,442		311,914,442
TOTAL OPERATION AND MAINTENANCE EXPENSE		2,241,288,268	0	2,241,288,268
DEPRECIATION		372,668,587		372,668,587
AMORTIZATION		61,054,527		61,054,527
TAXES OTHER THAN INCOME TAXES		96,297,630		96,297,630
INCOME TAXES -- FEDERAL		95,781,130	6,647,087	102,428,217
-- STATE		7,878,018	903,256	8,781,274
PROVISION FOR DEFERRED INCOME TAXES		66,549,578		66,549,578
INVESTMENT TAX CREDIT ADJUSTMENTS -- NET		(5,854,860)		(5,854,860)
GAINS FROM DISPOSITION OF UTILITY PLANT	CR	0		0
LOSSES FROM DISPOSITION OF UTILITY PLANT		60,094		60,094
ACCRETION EXPENSE		0		0
GAINS FROM DISPOSITION OF ALLOWANCES	CR	16,224,770		16,224,770
OTHER UTILITY OPERATING INCOME - STEAM HTG		0		0
UTILITY OPERATING INCOME		519,453,886	(7,550,343)	511,903,543
OTHER INCOME AND DEDUCTIONS				
OTHER INCOME				
INCOME FROM MERCHANDISING		367,663		367,663
INCOME FROM NONUTILITY OPERATIONS		834,838		834,838
NONOPERATING RENTAL INCOME		41,539		41,539
EQUITY IN EARNINGS OF SUBSIDIARY COMPANIES		839,244		839,244
INTEREST AND DIVIDEND INCOME		7,876,811	10,220,500	18,097,311
ALLOW FOR FUNDS USED DURING CONSTRUCTION		9,915,057		9,915,057
MISCELLANEOUS NONOPERATING INCOME		396,466,451		396,466,451
GAIN ON DISPOSITION OF PROPERTY		1,142,752		1,142,752
TOTAL OTHER INCOME		417,484,355	10,220,500	427,704,855
OTHER INCOME DEDUCTIONS				
LOSS ON DISPOSITION OF PROPERTY		650,349		650,349
MISCELLANEOUS AMORTIZATION		629,194		629,194
MISCELLANEOUS INCOME DEDUCTIONS		355,901,412		355,901,412
TOTAL OTHER INCOME DEDUCTIONS		357,180,955	0	357,180,955
TAXES APPLIC TO OTHER INCOME & DEDUCTIONS				
TAXES OTHER THAN INCOME TAXES		211,423		211,423
INCOME TAXES		22,805,499		22,805,499
INVESTMENT TAX CREDITS		(2,065,260)		(2,065,260)
TOTAL TAXES APPLIC TO OTHER INC & DED		20,951,662	0	20,951,662
NET OTHER INCOME AND DEDUCTIONS		39,351,738	10,220,500	49,572,238
INCOME BEFORE INTEREST CHARGES		558,805,624	2,670,157	561,475,781
INTEREST CHARGES				
INTEREST ON BONDS		237,603,134		237,603,134
AMORTIZATION OF DEBT DISCOUNT AND EXPENSE		3,911,956		3,911,956
AMORTIZATION OF LOSS ON REACQUIRED DEBT		6,116,695		6,116,695
AMORTIZATION OF PREMIUM ON DEBT		(2,718)		(2,718)
AMORTIZATION OF GAIN ON REACQUIRED DEBT		(85,275)		(85,275)
INTEREST ON DEBT TO ASSOCIATED COMPANIES		473,493		473,493
OTHER INTEREST EXPENSE		26,579,047	(9,675,000)	16,904,047
ALLOW FOR BRD FUNDS USED DURING CONSTR		(16,966,931)		(16,966,931)
NET INTEREST CHARGES		257,629,401	(9,675,000)	247,954,401
INCOME BEFORE EXTRAORD. ITEMS		301,176,223	12,345,157	313,521,380
EXTRAORDINARY ITEMS -- NET OF INCOME TAX				
INCOME TAX ON CUM. EFFECT OF CHANGE IN ACCT. PRINC		0		0
CUMULATIVE EFFECT OF CHANGE IN ACCT. PRINCIPLE		0		0
NET INCOME		301,176,223	12,345,157	313,521,380
PREFERRED DIVIDEND REQUIREMENTS		2,083,790		2,083,790
EARNINGS AVAILABLE FOR COMMON STOCK		299,092,433	12,345,157	311,437,590

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EXHIBIT G

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended March 31, 2006

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from _____ to _____

Commission File Number 1-5152

PACIFICORP

(Exact name of registrant as specified in its charter)

State of Oregon (State or other jurisdiction of incorporation or organization)	**93-0246090** (I.R.S. Employer Identification No.)
825 N.E. Multnomah Street, Portland, Oregon (Address of principal executive offices)	**97232** (Zip Code)

(503) 813-5000
(Registrant's telephone number)

Securities registered pursuant to Section 12(g) of the Act:

Title of each Class

5% Preferred Stock (Cumulative; $100 Stated Value)
Serial Preferred Stock (Cumulative; $100 Stated Value)
No Par Serial Preferred Stock (Cumulative; $100 Stated Value)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act.

Yes ☐ No ☒

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act).

Large accelerated filer ☐ Accelerated filer ☐ Non-accelerated filer ☒

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ☐ No ☒

Class	Outstanding at May 19, 2006
Common Stock, no par value	357,060,915 shares

All shares of outstanding common stock are indirectly owned by MidAmerican Energy Holdings Company, 666 Grand Avenue, Des Moines, Iowa.

DOCUMENTS INCORPORATED BY REFERENCE

None.

TABLE OF CONTENTS

DEFINITIONS

When the following terms are used in the text, they will have the meanings indicated:

Term	Meaning
CPUC	California Public Utilities Commission
FERC	Federal Energy Regulatory Commission
IPUC	Idaho Public Utilities Commission
KWh	Kilowatt-hour(s), one kilowatt continuously for one hour
MEHC	MidAmerican Energy Holdings Company, an Iowa corporation and indirect parent company of PacifiCorp
MW	Megawatt
MWh	Megawatt-hour(s), one megawatt continuously for one hour
OPUC	Oregon Public Utility Commission
PacifiCorp	PacifiCorp, an Oregon corporation and direct, wholly owned subsidiary of PPW Holdings LLC
PHI	PacifiCorp Holdings, Inc., a Delaware corporation and non-operating United States holding company and the former direct parent company of PacifiCorp
PPW Holdings LLC	PPW Holdings LLC, the direct parent company of PacifiCorp
ScottishPower	Scottish Power plc, the former ultimate, indirect parent company of PHI and PacifiCorp
SEC	Securities and Exchange Commission
SFAS	Statement of Financial Accounting Standards
UPSC	Utah Public Service Commission
WPSC	Wyoming Public Service Commission
WUTC	Washington Utilities and Transportation Commission

PART I

ITEM 1. BUSINESS

OVERVIEW

Ownership by MEHC; Sale of PacifiCorp

On March 21, 2006, MidAmerican Energy Holdings Company ("MEHC") completed its purchase of all of PacifiCorp's outstanding common stock from PacifiCorp Holdings, Inc. ("PHI"), a subsidiary of Scottish Power plc ("ScottishPower"), pursuant to the Stock Purchase Agreement among MEHC, ScottishPower and PHI dated May 23, 2005, as amended on March 21, 2006 (the "Stock Purchase Agreement"). The cash purchase price was $5.1 billion. PacifiCorp's common stock was directly acquired by a subsidiary of MEHC, PPW Holdings LLC. As a result of this transaction, MEHC controls the significant majority of PacifiCorp's voting securities, which include both common and preferred stock. MEHC, a global energy company based in Des Moines, Iowa, is a majority-owned subsidiary of Berkshire Hathaway Inc. ("Berkshire Hathaway"). All descriptions of the terms of the Stock Purchase Agreement contained in this Annual Report are modified in their entirety by reference to the terms of such agreement, which is included as an exhibit hereto.

Operations

PacifiCorp is a regulated electricity company serving retail customers in portions of the states of Utah, Oregon, Wyoming, Washington, Idaho and California. As a vertically integrated electric utility, PacifiCorp owns or has contracts for fuel sources such as coal and natural gas and uses these fuel sources, as well as wind, geothermal and water resources, to generate electricity at its power plants. This electricity, together with electricity purchased on the wholesale market, is then transmitted via a grid of transmission lines throughout PacifiCorp's six-state region. The electricity is then transformed to lower voltages and delivered to customers through PacifiCorp's distribution system. PacifiCorp sells electricity primarily in the retail market, with sales to residential, commercial and industrial customers. PacifiCorp also sells electricity in the wholesale market in connection with excess electricity generation or balancing activities. Subsidiaries of PacifiCorp support its electric utility operations by providing coal mining and other fuel-related services, as well as environmental remediation. PacifiCorp's goal is to provide safe, reliable, low-cost electricity to its customers, with fair and increasing earnings to its common shareholder. PacifiCorp expects that costs prudently incurred to provide service to its customers will be included as allowable costs for state rate-making purposes.

Following the closing of PacifiCorp's sale, MEHC announced a new organizational structure under the direction of a newly appointed chairman and chief executive officer, who oversees the company's entire operations. The PacifiCorp Energy operational unit is responsible for PacifiCorp's electric generation, commercial and energy trading, and coal-mining functions. The Pacific Power operational unit is responsible for delivering electricity to customers in Oregon, Washington and California. The Rocky Mountain Power operational unit is responsible for delivering electricity to customers in Utah, Wyoming and Idaho.

Regulation

PacifiCorp is subject to comprehensive regulation by the Federal Energy Regulatory Commission (the "FERC"), the Utah Public Service Commission (the "UPSC"), the Oregon Public Utility Commission (the "OPUC"), the Wyoming Public Service Commission (the "WPSC"), the Washington Utilities and Transportation Commission (the "WUTC"), Idaho Public Utility Commission (the "IPUC"), the California Public Utilities Commission (the "CPUC"), and other federal, state and local regulatory agencies. These agencies regulate many aspects of PacifiCorp's business, including customer rates, service territories, sales of securities, asset acquisitions and sales, accounting policies and practices, wholesale sales and purchases of electricity, and the operation of its electric generation and transmission facilities.

Employees

On March 31, 2006, PacifiCorp had 6,750 employees, 58.4% of which were covered by union contracts, principally with the International Brotherhood of Electrical Workers, the Utility Workers Union of America, International Brotherhood of Boilermakers and the United Mine Workers of America.

Location and Information Requests

The location of PacifiCorp's principal offices is 825 N.E. Multnomah Street, Portland, Oregon 97232. PacifiCorp's website address is www.pacificorp.com. PacifiCorp makes available free of charge, on or through its website, its annual, quarterly and current reports, and any amendments to those reports, as soon as reasonably practicable after electronically filing such reports with the United States Securities and Exchange Commission (the "SEC"). Information contained on PacifiCorp's

website is not part of this report. Reports and other information regarding PacifiCorp that are required to be filed with the SEC may also be obtained from the SEC's website at www.sec.gov.

POWER AND FUEL SUPPLY

Generating Plants

PacifiCorp owns, or has interests in, the following types of electricity generating plants:

	Plants	Nameplate Rating (MW)	Net Plant Capability (MW)
Coal	11	6,585.9	6,104.4
Natural gas and other	6	1,348.7	1,174.0
Hydroelectric	51	1,083.6	1,159.4
Wind	1	32.6	32.6
Total	69	9,050.8	8,470.4

The natural gas and other plants include the Currant Creek Power Plant, which commenced full combined-cycle operation in March 2006, adding 523.0 megawatts ("MW") of capability to PacifiCorp's generation portfolio.

The following table shows the estimated percentage of PacifiCorp's total energy requirements supplied by its generation plants and through short- and long-term contracts or spot market purchases during the years ended March 31, 2006, 2005 and 2004. See "Wholesale Sales and Purchased Electricity" below for more information.

	Years Ended March 31,		
	2006	2005	2004
Coal	67.5%	67.3%	67.8%
Natural gas and other	4.3	4.8	4.7
Hydroelectric	6.2	4.6	5.4
Wind	0.2	0.2	0.2
Total energy generated	78.2	76.9	78.1
Purchase and exchange contracts	21.8	23.1	21.9
Total	100.0%	100.0%	100.0%

The share of PacifiCorp's energy requirements generated by its plants will vary from year to year and is determined by factors such as planned and unplanned outages, availability and price of coal and natural gas, precipitation and snowpack levels, environmental considerations and the market price of electricity.

Coal

As of March 31, 2006, PacifiCorp had an estimated 248.3 million tons of recoverable coal reserves in mines owned or leased by it. During the year ended March 31, 2006, these mines supplied 32.3% of PacifiCorp's total coal requirements, compared to 28.6% during the year ended March 31, 2005 and 30.4% during the year ended March 31, 2004. The remaining coal requirements are acquired through other long-term and short-term contracts. PacifiCorp-owned mines are located adjacent to many of its coal-fired generating plants, which significantly reduces overall transportation costs included in fuel expense. For further information, see "Item 2. Properties."

In an effort to lower costs and obtain better quality coal, the Jim Bridger Mine is in the process of developing an underground mine to access 57.0 million tons of PacifiCorp's coal reserves. Underground mine development and limited coal production began during the year ended March 31, 2005 and sustained operations are expected to begin by March 31, 2007. The life of the underground mine is expected to be approximately 15 years.

Natural Gas

PacifiCorp currently utilizes natural gas to fuel four owned and one leased generating plants (composed of 16 generating units) that, at full capacity, require a maximum of 324,000 MMBtu (million British thermal units) of natural gas per day.

Additional electric generation resources required by PacifiCorp's Integrated Resource Plans discussed below, including the Lake Side Power Plant, could increase the natural gas requirement to 415,000 MMBtu per day or more. PacifiCorp has entered into transportation contracts to facilitate movement of natural gas to the Lake Side Power Plant. These contracts reflect PacifiCorp's fuel strategy that focuses on the management and mitigation of risks associated with supplying natural gas.

The growth of PacifiCorp's natural gas requirements requires a prudent, disciplined and well-documented approach to natural gas procurement and hedging. PacifiCorp has developed a natural gas strategy that addresses the need to economically hedge the commodity risk (physical availability and price), the transportation risk and the storage risk associated with its forecasted and potentially growing natural gas requirements. This natural gas strategy, combined with the prospect for increasing natural gas requirements, is expected to increase the volume and types of PacifiCorp's procurement and economic hedging activity.

PacifiCorp manages its natural gas supply requirements by entering into forward commitments for physical delivery of natural gas. PacifiCorp also manages its exposure to increases in natural gas supply costs through forward commitments for the purchase of physical natural gas at fixed prices and financial swap contracts that settle in cash based on the difference between a fixed price that PacifiCorp pays and a floating market-based price that PacifiCorp receives. As of March 31, 2006, PacifiCorp had economically hedged 100.0% of its forecasted physical and financial exposure for the remainder of calendar 2006 and had economically hedged 100.0% of its forecasted physical and financial exposure for calendar 2007. For calendar 2008, PacifiCorp currently has hedged 88.0% of its physical exposure and 96.0% of its financial exposure. This economic hedging includes the additional supply requirements arising from the Lake Side Power Plant and the recently constructed Currant Creek Power Plant.

Hydroelectric

PacifiCorp's hydroelectric portfolio consists of 51 plants with a net plant capability of 1,159.4 MW. These plants account for approximately 14.0% of PacifiCorp's total generating capacity, helping satisfy a significant portion of PacifiCorp's reserve requirements and providing operational benefits such as flexible generation and voltage control. Hydroelectric plants are located in the following states: Utah, Oregon, Wyoming, Washington, Idaho, California and Montana.

The amount of electricity PacifiCorp is able to generate from its hydroelectric plants depends on a number of factors, including snowpack in the mountains upstream of its hydroelectric facilities, reservoir storage, precipitation in its watersheds, plant availability and restrictions imposed by oversight bodies due to competing water management objectives. When these factors are favorable, PacifiCorp can generate more electricity using its hydroelectric plants. When these factors are unfavorable, PacifiCorp must increase its reliance on more expensive thermal plants and purchased electricity.

PacifiCorp operates the majority of its hydroelectric generating portfolio under long-term licenses from the FERC. These licenses are granted by the FERC for periods of 30 to 50 years. Several of PacifiCorp's long-term operating licenses have expired or will expire in the next few years. Hydroelectric facilities operating under expired licenses may operate under annual licenses granted by the FERC until new operating licenses are issued. Hydroelectric relicensing and the related environmental compliance requirements are subject to a degree of uncertainty. PacifiCorp expects that future costs relating to these matters may be significant and consist primarily of additional relicensing costs and capital expenditures. Electricity generation reductions may also result from additional environmental requirements. At March 31, 2006, PacifiCorp had incurred $70.3 million in costs for ongoing hydroelectric relicensing, which are included in Construction work-in-progress on PacifiCorp's Consolidated Balance Sheet. See "Hydroelectric Relicensing" and "Hydroelectric Decommissioning" both discussed below.

Wind and Other Renewable Resources

PacifiCorp is pursuing renewable power as a viable, economic and environmentally prudent means of generating electricity. The benefits of renewable energy include low to no emissions and no fossil fuel requirements. Resources such as wind and

solar are intermittent, so complementary thermal or hydroelectric resources are important to integrating intermittent renewable resources into the electric system.

PacifiCorp acquires wind and other renewable power through one PacifiCorp-owned wind farm in Wyoming and various purchased electricity agreements with wind farms in Oregon and Wyoming, as well as with renewable facilities classified as "qualifying facilities" under the Public Utility Regulatory Policies Act. PacifiCorp also owns a geothermal plant in Utah. For the year ended March 31, 2006, PacifiCorp received 256,371 MWh from its owned wind farm and geothermal plant. In this same period, 303,158 MWh were purchased from other wind sources, not including qualifying facilities.

To encourage the use of wind energy, PacifiCorp has generation, storage and delivery agreements with various other utilities. For the year ended March 31, 2006, electricity generated for delivery to customers under these agreements totaled 532,103 MWh in addition to the wind energy generated or purchased for PacifiCorp's own use.

In connection with its sale to MEHC, PacifiCorp has committed to state regulatory commissions that it will bring at least 100.0 MW of cost-effective wind resources in service by March 21, 2007 and, to the extent available, add 400.0 MW, inclusive of the 100.0 MW commitment, of cost-effective renewable resources in PacifiCorp's generation portfolio by December 31, 2007.

Future Generation and Conservation

Integrated Resource Plans

As required by state regulators, PacifiCorp uses Integrated Resource Plans to develop a long-term view of prudent future actions required to help ensure that PacifiCorp continues to provide reliable and cost-effective electric service to its customers. The Integrated Resource Plan process identifies the amount and timing of PacifiCorp's expected future resource needs and an associated optimal future resource mix that accounts for planning uncertainty, risks, reliability impacts and other factors. The Integrated Resource Plan is a coordinated effort with stakeholders in each of the six states where PacifiCorp operates. Each state commission that has Integrated Resource Plan adequacy rules judges whether the Integrated Resource Plan reasonably meets its standards and guidelines at the time the Integrated Resource Plan is filed. If the Integrated Resource Plan is found to be adequate, then it is formally "acknowledged." The Integrated Resource Plan can then be used as evidence by parties in rate-making or other regulatory proceedings.

In November 2005, PacifiCorp released an update to its 2004 Integrated Resource Plan. The updated 2004 Integrated Resource Plan identified a need for approximately 2,113.0 MW of additional resources by summer 2014, to be met with a combination of thermal generation (1,936.0 MW) and load control programs (177.0 MW). PacifiCorp also planned to implement energy conservation programs of 450.0 average MW, to continue to seek procurement of 1,400.0 MW of economic renewable resources and to use wholesale electricity transactions to make up for the remaining difference between retail load obligations and available resources.

In addition to new generation resources, substantial transmission investments could be required to deliver power to customers and provide system reliability. The actual investment requirement will depend on the location and other characteristics of the new generation resources. See "Transmission and Distribution" discussion below.

WHOLESALE SALES AND PURCHASED ELECTRICITY

In addition to its portfolio of generating plants, PacifiCorp purchases electricity in the wholesale markets to meet its retail load obligations, long-term wholesale obligations, and energy and capacity balancing requirements. For the year ended March 31, 2006, 21.8% of PacifiCorp's energy requirements were supplied by purchased electricity under short- and long-term purchase arrangements, both as defined by the FERC. PacifiCorp's energy requirements supplied by purchased electricity under short- and long-term purchase arrangements were 23.1% for the year ended March 31, 2005 and 21.9% for the year ended March 31, 2004.

Many of PacifiCorp's purchased electricity contracts have fixed-price components, which provide some protection against price volatility. PacifiCorp enters into wholesale purchase and sale transactions to balance its supply when generation and retail loads are higher or lower than expected. Generation varies with the levels of outages, hydroelectric generation conditions and transmission constraints. Retail load varies with the weather, distribution system outages, consumer trends and the level of economic activity. In addition, PacifiCorp purchases electricity in the wholesale markets when it is more

economical than generating it at its own plants. PacifiCorp may also sell into the wholesale market excess electricity arising from imbalances between generation and retail load obligations, subject to pricing and transmission constraints.

PacifiCorp's wholesale transactions are integral to its retail business, providing for a balanced and economically hedged position and enhancing the efficient use of its generating capacity over the long term. Historically, PacifiCorp has been able to purchase electricity from utilities in the western United States for its own requirements. These purchases are conducted through PacifiCorp and third party transmission systems, which connect with market hubs in the Pacific Northwest to provide access to normally low-cost hydroelectric generation and in the southwestern United States to provide access to normally higher-cost fossil-fuel generation. The transmission system is available for common use consistent with open-access regulatory requirements.

TRANSMISSION AND DISTRIBUTION

Electric transmission systems deliver energy from electric generators to distribution systems for final delivery to customers. PacifiCorp plans, builds and operates a transmission system. During the year ended March 31, 2006, PacifiCorp delivered 67,810,861 MWh of electricity to customers in its two control areas through 15,580 miles of transmission lines and its 59,510 mile system of distribution lines. For further detail, see "Item 2. Properties – Transmission and Distribution."

PacifiCorp's transmission system is part of the Western Interconnection, the regional grid in the west. The Western Interconnection includes the interconnected transmission systems of 14 western states, two Canadian provinces and parts of Mexico that make up the Western Electric Coordinating Council. The map under "Service Territories" below shows PacifiCorp's transmission grid. PacifiCorp's transmission system, together with contractual rights on other transmission systems, enables PacifiCorp to integrate and access generation resources to meet its customer load requirements. Due to PacifiCorp's continuing commitment to improve customer service and network safety and to enhance system reliability and performance, PacifiCorp has focused on infrastructure improvement projects in targeted areas. PacifiCorp and MEHC have committed to a number of transmission and distribution system investments in connection with regulatory approval of PacifiCorp's sale to MEHC. For discussion of specific planned spending see "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operation – Liquidity and Capital Resources – Future Uses of Cash – Capital Expenditure Program."

PacifiCorp operates one control area on the western portion of its service territory and one control area on the eastern portion of its service territory. A control area is a geographic area with electric systems that control generation to maintain schedules with other control areas and ensure reliable operations. In operating the control areas, PacifiCorp is responsible for continuously balancing electric supply and demand by dispatching generating resources and interchange transactions so that generation internal to the control area, plus net import power, matches customer loads. PacifiCorp also schedules power deliveries over its transmission system and maintains reliability in part by verifying that customers are properly using the system within established bounds.

PacifiCorp's wholesale transmission services are regulated by the FERC under cost-based regulation subject to PacifiCorp's Open Access Transmission Tariff. In accordance with the Open Access Transmission Tariff, PacifiCorp offers several transmission services to wholesale customers:

- Network transmission service (guaranteed service that integrates generating resources to serve retail loads);
- Long-term and short-term firm point-to-point transmission service (guaranteed service with fixed delivery and receipt points); and
- Non-firm point-to-point service ("as available" service with fixed delivery and receipt points).

These services are offered on a non-discriminatory basis, meaning that all potential customers are provided an equal opportunity to access the transmission system. PacifiCorp's transmission business is managed and operated independently from the generating and marketing business in accordance with the FERC Standards of Conduct. Transmission costs are not separated from, but rather are "bundled" with, generation and distribution costs in retail rates approved by state regulatory commissions. See "Regulation – Federal Regulatory Matters" below for further information related to the Energy Policy Act of 2005, which requires that the FERC establish and enforce standards for electric reliability.

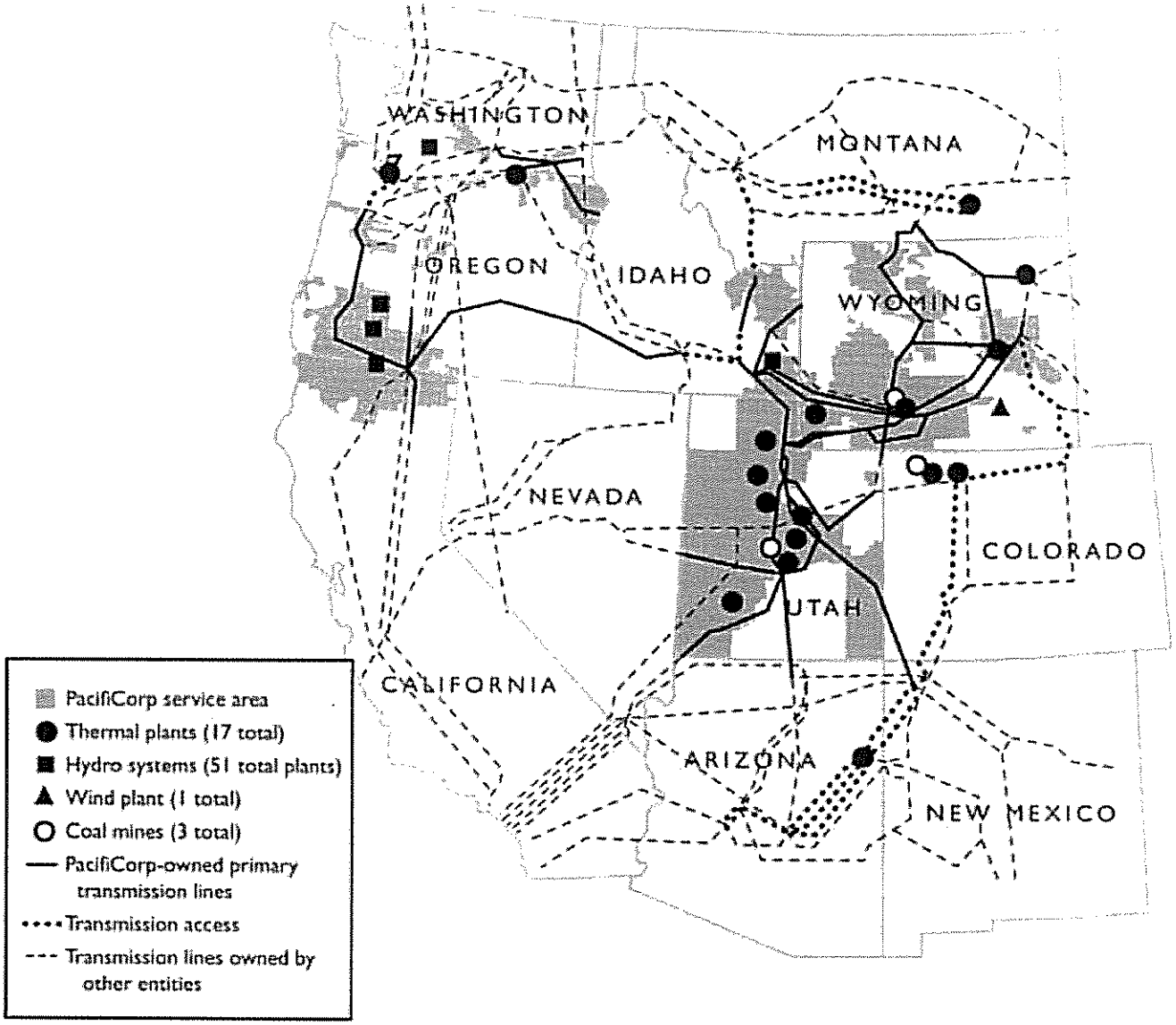
Regional Transmission Coordination

In December 1999, the FERC encouraged all companies with transmission assets to form regional transmission organizations that would manage certain operational functions of the transmission grid and plan for necessary expansion. In response, several northwest utilities, including PacifiCorp, formed a regional transmission entity, known as Grid West, that was intended to coordinate transmission functions in all or portions of eight western states and western Canada.

In April 2006, the Grid West board voted to dissolve the Grid West entity. This decision resulted primarily from the decision of key participants, including the Bonneville Power Administration to discontinue support and funding of Grid West efforts. To address the continuing need for some degree of regional transmission coordination, PacifiCorp and the other parties are considering smaller-scale initiatives that could provide value for customers.

SERVICE TERRITORIES

PacifiCorp serves approximately 1.6 million retail customers in service territories aggregating approximately 136,000 square miles in portions of six western states: Utah, Oregon, Wyoming, Washington, Idaho and California. The combined service territory's diverse regional economy ranges from rural, agricultural and mining areas to urbanized manufacturing and government service centers. No single segment of the economy dominates the service territory, which mitigates PacifiCorp's exposure to economic fluctuations. In the eastern portion of the service territory, mainly consisting of Utah, Wyoming and southeast Idaho, the principal industries are manufacturing, health services, recreation and mining or extraction of natural resources. In the western portion of the service territory, mainly consisting of Oregon, southeastern Washington and northern California, the principal industries are agriculture and manufacturing, with forest products, food processing, high technology and primary metals being the largest industrial sectors. The following map highlights PacifiCorp's retail service territory, plant locations and PacifiCorp's primary transmission lines. PacifiCorp's generating facilities are interconnected through PacifiCorp's own transmission lines or by contract through the transmission lines owned by others. See "Item 2. Properties" for additional information on PacifiCorp's plants.



The geographic distribution of PacifiCorp's retail electric operating revenues for the years ended March 31, 2006, 2005 and 2004 was as follows:

	Years Ended March 31,		
	2006	2005	2004
Utah	40.9%	40.6%	38.5%
Oregon	29.3	29.3	31.5
Wyoming	13.3	13.6	12.8
Washington	8.4	8.0	8.4
Idaho	5.7	6.1	6.3
California	2.4	2.4	2.5
	100.0%	100.0%	100.0%

PacifiCorp receives authorization from state public utility commissions to serve areas within each state. This authorization is perpetual until withdrawn by the state public utility commissions. In addition, PacifiCorp has received franchises to provide electric service to customers inside incorporated areas within the states. Most franchises have terms of five years or more, but

some have indefinite terms. PacifiCorp must renew franchises that expire. Governmental agencies have the right to

challenge PacifiCorp's right to serve in a specific area and can condemn PacifiCorp's property under certain circumstances in accordance with the laws in each state. However, PacifiCorp vigorously challenges any attempts from individuals and governmental entities to undertake forced takeover of any portions of its service territory. PacifiCorp is subject to energy regulation, legislation and political risks. Any changes in regulations and rates or legislative developments may adversely affect its business, financial condition, results of operations and cash flows. See "Item 1A. Risk Factors" for further information.

CUSTOMERS

Electricity sold to retail customers and the number of retail customers, by class of customer, for the years ended March 31, 2006, 2005 and 2004, were as follows:

	Years Ended March 31,					
	2006		2005		2004	
(Thousands of MWh)						
MWh sold						
Residential	14,880	29.7%	14,117	28.9%	14,460	29.7%
Commercial	14,887	29.7	14,642	29.9	14,413	29.6
Industrial	19,746	39.4	19,454	39.8	19,133	39.3
Other	599	1.2	706	1.4	673	1.4
Total MWh sold	50,112	100.0%	48,919	100.0%	48,679	100.0%
Number of retail customers (in thousands)						
Residential	1,404	85.6%	1,373	85.5%	1,341	85.4%
Commercial	198	12.1	194	12.1	190	12.1
Industrial	34	2.1	34	2.1	34	2.2
Other	4	0.2	4	0.3	5	0.3
Total	1,640	100.0%	1,605	100.0%	1,570	100.0%
Retail customers						
Average annual usage per customer (kWh)	30,895		30,825		31,305	
Average annual revenue per customer	$ 1,732		$ 1,669		$ 1,638	
Revenue per kWh	5.6¢		5.4¢		5.2¢	

During the year ended March 31, 2006, no single retail customer accounted for more than 2.0% of PacifiCorp's retail electric revenues, and the 20 largest retail customers accounted for 13.0% of PacifiCorp's retail electric revenues.

PacifiCorp is estimating average growth in retail megawatt-hour ("MWh") sales in PacifiCorp's franchise service territories to average between 2.0% and 3.0% annually over the five years to December 2010, depending on factors such as economic conditions, number of customers, weather, consumer trends, conservation efforts and changes in prices.

Seasonality

As a result of the geographically diverse area of operations, PacifiCorp's service territory has historically experienced complementary seasonal load patterns. In the western portion, customer demand peaks in the winter months due to heating requirements. In the eastern portion, customer demand peaks in the summer when irrigation and air-conditioning systems are heavily used.

For residential customers, within a given year, weather conditions are the dominant cause of usage variations from normal seasonal patterns. Strong Utah residential growth over the last several years and increasing installations of central air conditioning systems are contributing to faster summer peak growth.

RETAIL COMPETITION

During the year ended March 31, 2006, PacifiCorp continued to operate its retail business under state regulation, which generally prohibits retail competition. However, certain of PacifiCorp's commercial and industrial customers in Oregon have the right to choose alternative electricity suppliers. As a result of Direct Access mandated by Oregon's Senate Bill 1149, a group of customers having a total average load of approximately 11.4 average MW have chosen service from suppliers other than PacifiCorp. A group of customers having a total average load of approximately 1.6 average MW have taken service from PacifiCorp at the Daily Market Pricing Option. This service provides a market-based pricing option by linking the energy charge on a customer's bill to a representative market price index. PacifiCorp does not expect the Direct Access program and the Daily Market Pricing Option to have a material effect on earnings for the 12 months ending March 31, 2007.

In addition to Oregon's Direct Access program, others in PacifiCorp's service territories are seeking to have a choice of suppliers, exploring options to build their own generation or co-generation plants, or considering the use of alternative energy sources such as natural gas. If these customers gain the right to receive electricity from alternative suppliers, they will make their energy purchasing decisions based upon many factors, including price, service and system reliability. The use of alternative energy sources is typically based on availability, price and the general demand for electricity.

Any adoption of retail competition by the legislatures in the states served by PacifiCorp, in addition to the Direct Access program, and/or the unbundling of transmission, distribution and generation costs in regulated electricity services could have a significant adverse financial impact on PacifiCorp due to an impairment of assets, a loss of retail customers, lower profit margins or increased costs of capital and could result in increased pressure to lower the price of electricity. Although PacifiCorp believes it will continue as a regulated entity and does not expect significant retail competition in the near future, it cannot predict if or to what extent it will be subject to changes in legislation or regulation allowing retail competitors, nor can PacifiCorp predict the impact of these changes. See "Item 1A. Risk Factors – PacifiCorp is subject to energy regulation, legislation and political risks, and changes in regulations and rates or legislative developments may adversely affect its business, financial condition, results of operations and cash flows."

ENVIRONMENTAL MATTERS

PacifiCorp is subject to a number of federal, state and local environmental laws and regulations affecting many aspects of its present and future operations. These requirements relate to air emissions, water quality, waste management, hazardous chemical use, noise abatement, land use aesthetics and endangered species.

Environmental laws and regulations currently have, and future modifications may have, the effect of (i) increasing the lead time for the construction of new facilities, (ii) significantly increasing the total cost of new facilities, (iii) requiring modification of PacifiCorp's existing facilities, (iv) increasing the risk of delay on construction projects, (v) increasing PacifiCorp's cost of waste disposal, and (vi) reducing the amount of energy available from PacifiCorp's facilities. Any of these items could have a substantial impact on amounts required to be expended by PacifiCorp in the future.

In the year ended March 31, 2006, PacifiCorp spent approximately $62.3 million on environmental capital projects. PacifiCorp currently estimates expenditures for environmental-related capital projects will total approximately $129.2 million in the 12 months ending March 31, 2007.

Air Quality

PacifiCorp's fossil fuel-fired electricity generation plants are subject to applicable provisions of the Clean Air Act and related air quality standards promulgated by the United States Environmental Protection Agency ("EPA") and state air quality laws. The Clean Air Act provides the framework for regulation of certain air emissions and permitting and monitoring associated with those emissions. PacifiCorp owns or has interests in 11 coal-fired generating plants, which represent 72.1% of PacifiCorp's generating capability. PacifiCorp believes it has all required permits and other approvals to operate its plants and that the plants are in material compliance with applicable requirements.

The acquisition of PacifiCorp by MEHC includes a regulatory commitment to spend approximately $812.0 million over several years to reduce emissions at PacifiCorp's generating facilities to address existing and future air quality requirements. These costs and any additional expenditures necessitated by air quality regulations are expected to be included in rates and, as such, would not have a material adverse impact on PacifiCorp's consolidated results of operations.

The EPA has in recent years implemented more stringent national ambient air quality standards for ozone and new standards for fine particulate matter. These standards set the minimum level of air quality that must be met throughout the United States. Areas that achieve the standards, as determined by ambient air quality monitoring, are characterized as being in attainment of the standard. Areas that fail to meet the standard are designated as being non-attainment areas. Generally, once an area has been designated as a non-attainment area, sources of emissions that contribute to the failure to achieve the ambient air quality standards are required to make emissions reductions. The EPA has concluded that Utah and Wyoming, where PacifiCorp's major emission sources are located, are in attainment of the ozone standards and the fine particulate matter standards.

In December 2005, the EPA proposed a revision of the ambient air quality standards for fine particles that would maintain the current annual standard and set a new, more stringent 24-hour standard for concentration of fine particulate. The EPA is scheduled to issue final rules in September 2006. Until the EPA takes final action on the proposal, the impact of the proposed rules on PacifiCorp cannot be determined.

In March 2005, the EPA released the final Clean Air Mercury Rule. The Clean Air Mercury Rule utilizes a market-based cap and trade mechanism to reduce mercury emissions from coal-burning power plants from the current nationwide level of 48 tons to 15 tons at full implementation. The Clean Air Mercury Rule's two-phase reduction program requires initial reductions of mercury emissions in 2010 and an overall reduction in mercury emissions from coal-burning power plants of 70.0% by 2018. Individual states are required to implement the Clean Air Mercury Rule through their state implementation plans. Depending on the outcome of the respective states' implementation rules, the Clean Air Mercury Rule may require PacifiCorp to reduce emissions of mercury from some or all of its coal-fired facilities through the installation of emission controls, the purchase of emission allowances, or some combination thereof.

The Clean Air Mercury Rule could, in whole or in part, be superseded or made more stringent by one of a number of multi-pollutant emission reduction proposals currently under consideration at the federal level, including pending legislative proposals that contemplate 70.0% to 90.0% reductions of sulfur dioxide, nitrogen oxides and mercury, as well as possible new federal regulation of carbon dioxide and other gases that may affect global climate change. In addition to any federal legislation that could be enacted by the United States Congress to supersede the Clean Air Mercury Rule, the rules could be changed or overturned as a result of litigation. The sufficiency of the standards established by the Clean Air Mercury Rule has been legally challenged in the United States District Court for the District of Columbia. Until final resolution of litigation challenging the Clean Air Mercury Rule, the full impact of the rules on PacifiCorp cannot be determined.

The EPA has initiated a regional haze program intended to improve visibility at specific federally protected areas. PacifiCorp and other stakeholders are participating in the Western Regional Air Partnership to help develop the technical and policy tools needed to comply with this program.

Under existing New Source Review provisions of the Clean Air Act, any facility that emits regulated pollutants is required to obtain a permit from the EPA or a state regulatory agency prior to (i) beginning construction of a new stationary source of a New Source Review -regulated pollutant, or (ii) making a physical or operational change to an existing stationary source of such pollutants. Pending or proposed air regulations will require PacifiCorp to reduce its electricity plant emissions of sulfur dioxide, nitrogen oxides and other pollutants below current levels. These reductions will be required to address regional haze programs, mercury emissions regulations and possible re-interpretations and changes to the federal Clean Air Act. In the future, PacifiCorp expects to incur significant costs to comply with various stricter air emissions requirements. These potential costs are expected to consist primarily of capital expenditures. PacifiCorp expects these costs would be included in rates and, as such, would not have a material adverse impact on PacifiCorp's consolidated results of operations. See also "Item 8. Financial Statements and Supplementary Data – Note 6 – Asset Retirement Obligations and Accrued Environmental Costs."

The EPA has requested from several utilities information and supporting documentation regarding their capital projects for various generating plants. The requests were issued as part of an industry-wide investigation to assess compliance with the New Source Review and the New Source Performance Standards of the Clean Air Act. In 2001 and 2003, PacifiCorp received requests for information from the EPA relating to PacifiCorp's capital projects at seven of its generating plants. PacifiCorp submitted information responsive to the requests and there are currently no outstanding data requests pending from the EPA. PacifiCorp cannot predict the outcome of these requests at this time.

In 2002 and 2003, the EPA proposed various changes to its New Source Review rules that clarify what constitutes routine repair, maintenance and replacement for purposes of triggering New Source Review requirements. These changes have been subject to legal challenge and, until such time as the legal challenges are resolved and the rules are effective, PacifiCorp will continue to manage projects at its generating plants in accordance with the rules in effect prior to 2002. In October 2005, the EPA proposed a rule that would change or clarify how emission increases are to be calculated for purposes of determining the applicability of the New Source Review permitting program for existing power plants. The impact of these proposed changes on PacifiCorp cannot be determined until after the rule is finalized and implemented.

In February 2005, the Kyoto Protocol became effective, requiring 35 developed countries to reduce greenhouse gas emissions by approximately 5.0% between 2008 and 2012. While the United States did not ratify the protocol, the ratification and implementation of its requirements in other countries has resulted in increased attention to climate change in the United States. In 2005, the United States Senate adopted a "sense of the Senate" resolution that puts the United States Senate on record that the United States Congress should enact a comprehensive and effective national program of mandatory, market-based limits and incentives on emissions of greenhouse gases that slow, stop, and reverse the growth of such emissions at a rate and in a manner that will not significantly harm the United States economy; and will encourage comparable action by other nations that are major trading partners and key contributors to global emissions. While debate continues at the national level over the direction of domestic climate policy, several states are developing state-specific or regional legislative initiatives to reduce greenhouse gas emissions. In December 2005, the states of Connecticut, Delaware, Maine, New Hampshire, New Jersey, New York and Vermont signed a mandatory regional pact to reduce greenhouse gas emissions that would become effective in 2009 and ultimately would require a reduction in greenhouse gas emissions of 10.0% from 1990 levels. An executive order signed by California's governor in June 2005 would reduce greenhouse gas emissions in that state to 2000 levels by 2010, to 1990 levels by 2020 and 80.0% below 1990 levels by 2050. In addition, California is seeking to apply a greenhouse gas emission performance standard to all electricity generated within the state or delivered from outside the state that is no higher than the greenhouse gas emission levels of a state-of-the-art combined-cycle natural gas generation facility.

Litigation was filed in the federal district court for the southern district of New York seeking to require reductions of carbon dioxide emissions from generating facilities of five large electric utilities. The court dismissed the public nuisance suit, holding that such critical issues affecting the United States such as greenhouse gas emissions reductions are not the domain of the court and should be resolved by the Executive Branch and the United States Congress. This ruling has been appealed to the Second Circuit Court of Appeals. The outcome of climate change litigation and federal and state initiatives cannot be determined at this time; however, adoption of stringent limits on greenhouse gas emissions could significantly impact PacifiCorp's fossil-fueled facilities and, therefore, its results of operations and cash flows. PacifiCorp includes a projected additional cost for carbon dioxide emissions in its Integrated Resource Plans when evaluating proposed new resources.

The EPA's regulation of certain pollutants under the Clean Air Act, and its failure to regulate other pollutants, is being challenged by various lawsuits brought by both individual state attorney generals and environmental groups. To the extent that these actions may be successful in imposing additional and/or more stringent regulation of emissions on fossil-fueled facilities in general and PacifiCorp's facilities in particular, such actions could significantly impact PacifiCorp's fossil-fueled facilities and, therefore, its results of operations and cash flows.

Water Quality

The federal Clean Water Act and individual state clean-water regulations require a permit for the discharge of wastewater, including storm water runoff from electricity plants and coal storage areas, into surface water and groundwater. Additionally, PacifiCorp believes that it currently has, or has initiated the process to receive, all required water quality permits.

Endangered Species

The federal Endangered Species Act of 1973 and similar state statutes protect species threatened with possible extinction. Protection of the habitat of endangered and threatened species makes it difficult and more costly to perform some of PacifiCorp's core activities, including the siting, construction and operation of new and existing transmission and distribution facilities, as well as thermal, hydroelectric and wind generation plants. In addition, issues affecting endangered species can impact the relicensing of existing hydroelectric generating projects. This can generally reduce the generating output and operational flexibility, and potentially increase the costs of operation, of PacifiCorp's own hydroelectric resources, as well as raise the price PacifiCorp pays to purchase wholesale electricity from hydroelectric facilities owned by others.

Environmental Cleanups

Under the Comprehensive Environmental Response, Compensation and Liability Act, the Resource Conservation and Recovery Act and similar state statutes, entities that dispose of, or arrange for the disposal of, hazardous materials may be liable for cleanup of the contaminated property. In addition, the current or former owners or operators of affected sites may be liable. PacifiCorp has been identified as a potentially responsible party in connection with a number of cleanup sites because of its current or past ownership or operation of certain properties or because PacifiCorp sent materials deemed to be hazardous to the property in the past. PacifiCorp has completed several cleanup actions and is actively participating in investigations and remediation actions at other sites. See "Item 8. Financial Statements and Supplementary Data – Note 6 – Asset Retirement Obligations and Accrued Environmental Costs" for further discussion.

Mine Reclamation

The federal Surface Mining Control and Reclamation Act of 1977 and similar state statutes establish operational, reclamation and closure standards that must be met during and upon completion of mining activities. These obligations mandate that mine property be restored consistent with specific standards and the approved reclamation plan. PacifiCorp's mining operations are subject to these reclamation and closure requirements. Significant expenditures are being incurred for both ongoing and final reclamation. For further discussion, see "Item 2. Properties" and "Item 8. Financial Statements and Supplementary Data – Note 6 – Asset Retirement Obligations and Accrued Environmental Costs."

REGULATION

PacifiCorp conducts its business in conformance with a multitude of federal and state laws. PacifiCorp is also subject to the jurisdiction of public utility regulatory authorities in each of the states in which it conducts retail electric operations. These authorities regulate various matters, including customer rates, services, accounting policies and practices, allocation of costs by state, issuances of securities and other matters. In addition, PacifiCorp is a "licensee" and a "public utility" as those terms are used in the Federal Power Act and is therefore subject to regulation by the FERC as to accounting policies and practices, certain prices and other matters, including the terms and conditions of transmission service. Most of PacifiCorp's hydroelectric plants are licensed by the FERC as major projects under the Federal Power Act, and certain of these projects are licensed under the Oregon Hydroelectric Act.

Federal Regulatory Matters

After several years of active consideration, in July 2005 the United States Congress approved legislation making significant changes in federal energy policy. The Energy Policy Act of 2005, enacted in August 2005, repealed the Public Utility Holding Company Act of 1935 and transferred regulatory oversight of public utility holding companies from the SEC to the FERC. The Energy Policy Act of 2005 also contains provisions to encourage investment in renewable and lower-emission coal generation, provides financial incentives and removes regulatory barriers for developers of new electric transmission facilities, establishes a process for the creation and enforcement of mandatory electric reliability standards, and authorizes license applicants and other parties to seek less costly and more efficient conditions imposed on federal hydroelectric power licenses.

See "Item 8. Financial Statements – Note 10 – Commitments and Contingencies" which is incorporated by reference into this Item 1.

Several of PacifiCorp's hydroelectric plants are in some stage of the relicensing process with the FERC. PacifiCorp also has requested the FERC to allow decommissioning of four hydroelectric plants. The following summarizes the status of certain of these projects.

Hydroelectric Relicensing

Klamath hydroelectric project – (Klamath River, Oregon and California)

In February 2004, PacifiCorp filed with the FERC a final application for a new license to operate the 161.4-MW Klamath hydroelectric project. The FERC is scheduled to complete its required analysis by January 2007. The United States Departments of Interior and Commerce filed proposed licensing terms and conditions with the FERC in March 2006; PacifiCorp filed alternatives to the federal agencies' proposal and challenges to its factual assumptions in April 2006.

PacifiCorp continues to participate in the mediated settlement discussions with state and federal agencies, Native American tribes and other stakeholders in an effort to reach a comprehensive agreement on project relicensing.

Lewis River hydroelectric projects – (Lewis River, Washington)

PacifiCorp filed new license applications for the 136.0-MW Merwin and 240.0-MW Swift No. 1 hydroelectric projects in April 2004. An application for a new license for the 134.0-MW Yale hydroelectric project was filed with the FERC in April 1999. However, consideration of the Yale application was delayed pending filing of the Merwin and Swift No. 1 applications so that the FERC could complete a comprehensive environmental analysis.

In November 2004, PacifiCorp executed a comprehensive settlement agreement with 25 other parties including state and federal agencies, Native American tribes, conservation groups, and local government and citizen groups to resolve, among the parties, issues related to the pending applications for new licenses for PacifiCorp's Merwin, Swift No. 1 and Yale hydroelectric projects. As part of this settlement agreement, PacifiCorp has agreed to implement certain protection, mitigation and enhancement measures prior to and during a proposed 50-year license period. However, these commitments are contingent on ultimately receiving a license from the FERC that is consistent with the settlement agreement and other required permits. Other required permits include biological opinions and a water quality certification. At the earliest, the FERC is expected to make a final decision in August 2006.

North Umpqua hydroelectric project – (North Umpqua River, Oregon)

In October 2005, the new FERC license for the 136.5-MW North Umpqua hydroelectric project became final under the terms of the North Umpqua Settlement Agreement. Prior to this date, the license had been effective, but not final, because environmental groups had challenged its legality before the FERC and in federal court. In September 2005, the Ninth Circuit Court of Appeals issued an order upholding the new license. Since the Ninth Circuit Court's order was not appealed within the allowed time, all legal challenges of the FERC license order have been exhausted and the license is final for purposes of recording liabilities. PacifiCorp is committed, over the 35-year life of the license, to fund approximately $48.4 million for environmental mitigation and enhancement projects. As a result of the license becoming final, PacifiCorp recorded additional liabilities and intangible assets in October 2005 amounting to a present value of $11.2 million. At March 31, 2006, the liability recorded for all North Umpqua obligations amounted to a present value of $21.8 million.

Prospect hydroelectric project – (Rogue River, Oregon)

In June 2003, PacifiCorp submitted a final license application to the FERC for the Prospect Nos. 1, 2 and 4 hydroelectric projects, which total 36.8 MW. The FERC is expected to complete its required analysis and issue a new license before the end of October 2006.

Hydroelectric Decommissioning

Condit hydroelectric project – (White Salmon River, Washington)

In September 1999, a settlement agreement to remove the 9.6-MW Condit hydroelectric project was signed by PacifiCorp, state and federal agencies and non-governmental agencies. Under the original settlement agreement, removal was expected to begin in October 2006, for a total cost to decommission not to exceed $17.2 million, excluding inflation. In early February 2005, the parties agreed to modify the settlement agreement so that removal will not begin until October 2008 for a total cost to decommission not to exceed $20.5 million, excluding inflation. The settlement agreement is contingent upon receiving an amended FERC license and removal order that is not materially inconsistent with the amended settlement agreement and other regulatory approvals. PacifiCorp is in the process of acquiring all necessary permits, within the terms and conditions of the amended settlement agreement.

State Regulatory Actions

PacifiCorp is currently pursuing a regulatory program in all states, with the objective of keeping rates closely aligned to ongoing costs. A component of the regulatory program is the filing of Power Cost Adjustment Mechanisms ("PCAM"). PCAMs deal with changes in power costs occurring between rate cases. Power costs above or below the amounts built into rates are recovered from or returned to customers according to the provisions in the specific PCAM. The following discussion provides a state-by-state update.

Utah

In March 2006, PacifiCorp filed a general rate case with the UPSC related to increased investments in Utah due to growing demand for electricity. PacifiCorp is seeking an increase of $197.2 million annually, or 17.1%. If approved by the UPSC, the

increase would take effect in December 2006. In April 2006, PacifiCorp filed a revised case reflecting the effects of PacifiCorp's sale to MEHC. The revised case reduced the original increase requested from $197.2 million to $194.1 million. The active parties in the case have stipulated to a new schedule in the rate case which allows completion of preliminary audits and an opportunity for settlement discussions prior to the hearings set in July 2006 to determine the proper test year. In November 2005, PacifiCorp filed a PCAM application. The Utah Industrial Energy Consumer Group has filed a motion to dismiss the PCAM application based on lack of delegated legislative authority. PacifiCorp does not believe the motion has merit and will oppose the motion in its reply due June 9, 2006. The PCAM proceeding is running concurrently with the March 2006 general rate case.

Oregon

In April 2006, long-term special contracts for PacifiCorp's Klamath basin irrigation customers expired. Under the contracts, customers received power at rates less than PacifiCorp's average retail rates charged to other customers on general irrigation tariffs. Following expiration of these contracts, the OPUC issued an order authorizing the transition of Klamath basin irrigators to generally applicable cost-based rates.

In February 2006, PacifiCorp filed a general rate case request with the OPUC for approximately $112.0 million, which represents a 13.2% overall increase. The request is related to investments in generation, transmission and distribution infrastructure and increases in fuel and general operating expenses, including the maintenance of low-cost but aging power plants. A procedural schedule has been established with a decision from the OPUC expected by December 2006.

In September 2005, Oregon's governor signed into law Senate Bill 408. This legislation is intended to address differences between income taxes collected by Oregon public utilities in retail rates and actual taxes paid by the utilities or consolidated groups in which utilities are included for income tax reporting purposes. This legislation authorizes an automatic adjustment to rates based on the taxes paid to governmental entities on or after January 1, 2006. The OPUC adopted a temporary rule in September 2005 to establish filing requirements for an annual tax report mandated by Senate Bill 408. The definitions adopted in the temporary rule would allocate a share of individual taxable losses of affiliate companies to the utility even when the consolidated tax group pays more taxes than the utility collects in retail rates. The temporary rule expired in March 2006. PacifiCorp is actively participating in the rulemaking process for adopting permanent rules required by Senate Bill 408.

In September 2005, the OPUC issued an order granting a general rate increase of $25.9 million, or an average increase of 3.2%, effective October 2005. PacifiCorp filed its general rate case in November 2004, and following four partial stipulations with participating parties, PacifiCorp's requested revenue requirement increase was $52.5 million. The OPUC's order reduced PacifiCorp's revenue requirement by $26.6 million based on the OPUC's interpretation of Senate Bill 408. In October 2005, PacifiCorp filed with the OPUC a motion for reconsideration and rehearing of the rate order generally on the basis that the tax adjustment was not made in compliance with applicable law. With the motion, PacifiCorp also filed a deferred accounting application with the OPUC to track revenues related to the disallowed tax expenses. The OPUC granted PacifiCorp's motion for reconsideration and rehearing in December 2005 and is reconsidering whether Oregon Senate Bill 408 applies to the general rate case and, if it does, whether the tax adjustment ordered by the OPUC results in rates that are unconstitutional. A hearing and submissions of written briefs are scheduled to occur through May 2006. A decision is expected by summer 2006.

PacifiCorp filed an application in February 2005 for deferral of higher power costs incurred in calendar 2005 due to continuing poor hydroelectric conditions. PacifiCorp sought deferral of these costs to track for future recovery in rates. In May 2005, this deferral application was suspended to allow parties to focus on a PCAM application filed by PacifiCorp in April 2005. Briefing in the PCAM proceeding was completed in January 2006 and a commission order is pending. In May 2006, the PCAM proceeding was stayed for 60 days at PacifiCorp's request.

Wyoming

In March 2006, the WPSC approved an agreement that settled the general rate case filed by PacifiCorp in October 2005 and a separate request filed by PacifiCorp in December 2005 to recover increased costs of net wholesale purchased power used to serve Wyoming customers. The agreement provides for an annual rate increase of $15.0 million effective March 1, 2006, an additional annual rate increase of $10.0 million effective July 1, 2006, a PCAM and an agreement by the parties to support a forecast test year in the next general rate case application.

Washington

In May 2005, PacifiCorp filed a general rate case request with the WUTC for approximately $39.2 million annually. Hearings took place in January and February 2006 and this amount was reduced to approximately $30.0 million. As part of the general rate case, PacifiCorp was also seeking to recover $8.3 million in hydroelectric costs and was proposing that future hydroelectric and power cost volatility be recovered through a PCAM that was proposed as part of the general rate case. In April 2006, the WUTC issued an order denying PacifiCorp's request to increase retail rates. The WUTC determined that application of PacifiCorp's cost allocation methodology failed to satisfy the statutory requirements that resources must benefit Washington ratepayers.

In April 2006, PacifiCorp filed a petition for reconsideration of the order and requested an increase of not less than $11.0 million. PacifiCorp also filed a limited rate request seeking a rate increase of approximately $7.0 million, which represents a 2.99% increase in rates. PacifiCorp has requested that these dockets be consolidated so that the requested increase of not less than $11.0 million can be achieved.

Idaho

In February 2006, PacifiCorp filed a notice of intent to file a general rate case with the IPUC. A general rate case may be filed between 60 and 120 days after filing such a notice. Negotiations with certain Idaho customers are ongoing and the successful conclusion of such negotiations may preclude the need for a rate case filing. If filed, the rate case will seek a rate increase in Idaho to be effective beginning January 2007.

In July 2005, the IPUC issued an order approving a settlement of PacifiCorp's general rate case filed in January 2005 and granting a stipulated rate increase of $5.8 million, or an average increase of 4.8%, effective September 16, 2005. On that date, unrelated pre-existing surcharges expired, so the net effect to customers of the $5.8 million base increase was an increase in rates of $2.1 million annually, or an average increase of 1.7%.

California

In April 2006, long-term special contracts for PacifiCorp's Klamath basin irrigation customers expired. Under the contracts, customers received power at rates less than PacifiCorp's average retail rates charged to other customers on general irrigation tariffs. Following expiration of these contracts, the CPUC approved a joint proposal for a transition to standard tariff pricing.

In November 2005, PacifiCorp filed a general rate case with the CPUC for an increase of $11.0 million annually, or an average increase of 15.6% related to increasing costs, including power costs and operating expenses, as well as significant needed capital investments. PacifiCorp's application also requests the implementation of an Energy Cost Adjustment Clause ("ECAC"), which like a PCAM allows for annual rate adjustments for changes in the level of net power costs, and a Post Test-Year Adjustment Mechanism ("PTAM"), which would allow annual rate adjustments for changes in operating costs and plant additions. These proposed adjustment mechanisms would operate outside the context of traditional general rate cases. In May 2006, PacifiCorp filed an update to this general rate case to account for the Klamath basin irrigation customers' transition plan and to update the filing for the expected cost savings as a result of the acquisition of PacifiCorp by MEHC. This updated filing resulted in a net requested average increase of $12.8 million annually, or 18.9% for California customers.

ITEM 1A. RISK FACTORS

The following are certain risks and other factors to be considered when evaluating PacifiCorp. See "Item 7A. Quantitative and Qualitative Disclosures About Market Risk" for a discussion of additional important risks and other factors.

PacifiCorp is engaged in several large construction or expansion projects, the completion and expected cost of which is subject to significant risk, and PacifiCorp has significant funding needs related to its planned capital expenditures.

PacifiCorp is engaged in several large construction or expansion projects, including construction of a new generating facility, the Lake Side Power Plant, in Utah and various capital projects related to transmission and distribution. In addition, in connection with PacifiCorp's acquisition by MEHC, MEHC and PacifiCorp have committed to undertake several other capital expenditure projects, principally relating to environmental controls, transmission and distribution, renewable generating and other facilities. PacifiCorp expects to incur substantial construction, expansion and other capital expenditure

costs over the next several years, including the recent regulatory commitments previously discussed. PacifiCorp depends upon both internal and external sources of liquidity to provide working capital and to fund capital requirements. If these funds are not available and/or if MEHC does not elect to provide any needed funding to PacifiCorp, PacifiCorp may need to postpone or cancel planned capital expenditures.

The completion of any or all of PacifiCorp's pending, proposed or future construction or expansion projects is subject to substantial risk and may expose PacifiCorp to significant costs. PacifiCorp's development or construction efforts on any particular project, or its capital expenditure program generally, may not be successful. If PacifiCorp is unable to complete the development or construction of any capital project, or if it decides to delay or cancel a project, it may not be able to recover its investment in that project.

Also, a proposed expansion or new project may cost more than planned to complete, and any excess costs, if related to a regulated asset and found to be imprudent, may not be recoverable in rates. The inability to successfully and timely complete a project or avoid unexpected costs may require PacifiCorp to perform under guarantees, and the inability to avoid unsuccessful projects or to recover any excess costs may materially affect PacifiCorp's cash flows and results of operations.

PacifiCorp is subject to certain operating uncertainties which may adversely affect its financial position, results of operations and cash flows.

The operation of complex electric utility systems (including transmission and distribution) and power generating facilities that are spread over a large geographic area involves many risks associated with operating uncertainties and events beyond PacifiCorp's control. These risks include the breakdown or failure of power generation equipment, transmission and distribution lines or other equipment or processes, unscheduled plant outages, work stoppages, transmission and distribution system constraints or outages, fuel shortages or interruptions, performance below expected levels of output, capacity or efficiency, the effects of changing government regulation, operator error and catastrophic events such as severe storms, fires, earthquakes, explosions or mining accidents. A casualty occurrence might result in injury or loss of life, extensive property damage or environmental damage. The realization of any of these risks could significantly reduce PacifiCorp's revenues or significantly increase its expenses, thereby adversely affecting results of operations. For example, if PacifiCorp cannot operate generation facilities at full capacity due to restrictions imposed by environmental regulations, its revenues could decrease due to decreased wholesale sales and its expenses could increase due to the need to obtain energy from higher-cost sources. Any reduction of revenues or increase in expenses resulting from the risks described above could decrease PacifiCorp's cash flows and weaken its financial position.

Furthermore, PacifiCorp's current and future insurance coverage may not be sufficient to replace lost revenues or cover repair and replacement costs, especially in light of recent catastrophic events affecting the insurance markets that make it more difficult or costly to obtain certain types of insurance.

Acts of sabotage and terrorism aimed at PacifiCorp's facilities, the facilities of its fuel suppliers or customers, or at regional transmission facilities could adversely affect PacifiCorp's business.

Since the September 11, 2001 terrorist attacks, the United States government has issued warnings that energy assets, specifically the nation's pipeline and electric utility infrastructure, may be the future targets of terrorist organizations. These developments have subjected PacifiCorp's operations to increased risks. Damage to PacifiCorp's assets, the assets of PacifiCorp's fuel suppliers or customers, or to regional transmission facilities inflicted by terrorist groups or saboteurs could result in a significant decrease in revenues and significant repair costs, force PacifiCorp to increase security measures, cause changes in the insurance markets and cause disruptions of fuel supplies, energy consumption and markets, particularly with respect to natural gas and electric energy. Any of these consequences of acts of terrorism could materially affect PacifiCorp's results of operations and cash flows. Instability in the financial markets as a result of terrorism or war could also materially adversely affect PacifiCorp's ability to raise capital.

Recovery of costs by PacifiCorp is subject to regulatory review and approval, and the inability to recover costs may adversely affect PacifiCorp's revenues and cash flows.

PacifiCorp is subject to the jurisdiction of federal and state regulatory authorities. The FERC establishes tariffs under which PacifiCorp provides transmission service to the wholesale market and the retail market (in states allowing retail competition). The FERC also establishes both cost-based and market-based tariffs under which PacifiCorp sells electricity at wholesale and has licensing authority over most of PacifiCorp's hydroelectric generation facilities. In addition, the utility regulatory

commissions in each state served by PacifiCorp independently determine the rates that PacifiCorp may charge its retail customers in those states.

Each state's rate-setting process is based upon the state utility commission's acceptance of an allocated share of PacifiCorp's total utility costs for its entire retail service territory. When different states adopt different methods to address this cost allocation issue, some costs may not be incorporated into rates in any state. Rate-making is also generally done on the basis of estimates of normalized costs, so if in a specific year realized costs are higher than normal, rates will not be sufficient to cover those costs. Each state utility commission generally sets rates based on a test year established according to that commission's policies. Certain states use a future test year or allow for escalation of historical costs. In the states in which PacifiCorp operates that use a historical test year, rate adjustments could lag cost increases, or decreases, by up to two years. This regulatory lag causes PacifiCorp to incur costs, including significant new investments, for which recovery through rates is delayed. In addition, each state commission decides what percentage return a utility will be permitted to earn on its equity. Each commission also decides what level of expense and investment is necessary, reasonable and prudent in providing service and may disallow and deny recovery in rates for any costs that do not meet this standard. For these reasons, as well as others (such as recently enacted legislation and the outcome of the recent rate order in Oregon limiting or denying the ability of a utility to recover tax expenses in rates), the rates authorized by the state regulators may not be sufficient to cover costs incurred to provide electrical services in any given period.

PacifiCorp is subject to energy regulation, legislation and political risks, and changes in regulations and rates or legislative developments may adversely affect its business, financial condition, results of operations and cash flows.

PacifiCorp is subject to comprehensive governmental regulation, including regulation by various federal, state and local regulatory agencies, which significantly influences PacifiCorp's operating environment, the prices it is allowed to charge customers, its capital structure, its costs and its ability to recover costs from customers. These regulatory agencies include the FERC, the EPA, and the public utility commissions in Utah, Oregon, Wyoming, Washington, Idaho and California.

PacifiCorp also conducts its businesses in conformance with a multitude of federal, state and local laws, which are subject to significant changes at any time. Changes in regulations or the imposition of additional regulations by any of these regulatory entities, as well as new legislation, could have a material adverse impact on PacifiCorp's results of operations. For example, such changes could result in increased retail competition in PacifiCorp's service territory, changes to the hydroelectric relicensing process under the Federal Power Act, encouragement of investments in renewable or lower-emission generation, the acquisition by a municipality or other quasi-governmental body of PacifiCorp's distribution facilities (by negotiation, legislation or condemnation or by a vote in favor of a Public Utility District under Oregon law), or a negative impact on PacifiCorp's current cost recovery arrangements. As another example, PacifiCorp could be adversely affected by Senate Bill 408, which was recently enacted in Oregon. That legislation, and the outcome of a recent rate case, which is currently under formal reconsideration, resulted in a reduction by the OPUC in the rates that PacifiCorp is currently permitted to charge to its Oregon customers, and in the future may limit the ability of PacifiCorp and other public utilities to recover future federal and state income tax expenses in Oregon retail rates. Unless Senate Bill 408 is amended, modified or repealed, or the pending rehearing of the rate case is resolved, in a manner satisfactory to PacifiCorp, such legislation and rules could have a material adverse effect upon PacifiCorp's results of operations and cash flows.

Several of PacifiCorp's hydroelectric projects are in some stage of the FERC relicensing process under the Federal Power Act, as several of PacifiCorp's long-term operating licenses have expired or will expire in the next few years. The relicensing process is a political and public regulatory process that involves sensitive resource issues and uncertainties. PacifiCorp cannot predict with certainty the requirements that may be imposed during the relicensing process, the economic impact of those requirements, whether new licenses will ultimately be issued or whether PacifiCorp will be willing to meet the relicensing requirements to continue operating its hydroelectric projects. Loss of hydroelectric resources or additional commitments arising from the relicensing process could increase PacifiCorp's operating costs or result in large capital expenditures that reduce earnings and cash flows.

In August 2005, the Energy Policy Act of 2005 was signed into law. That law potentially impacts many segments of the energy industry. The law directed the FERC to issue new regulations and regulatory decisions in areas such as electric system reliability, electric transmission expansion and pricing, regulation of utility holding companies, and enforcement authority. While the FERC has now issued rules and decisions on multiple aspects of the Energy Policy Act of 2005, the full impact of those decisions remains uncertain. As a result of past events affecting electric reliability, the Energy Policy Act of 2005 requires federal agencies, working together with non-governmental organizations charged with electric reliability responsibilities, to adopt and implement measures designed to ensure the reliability of electric transmission and distribution

systems. The implementation of such measures could result in the imposition of more comprehensive or stringent requirements on PacifiCorp or other industry participants, which would result in increased compliance costs and could have a material adverse effect on PacifiCorp's business, financial position, results of operations and cash flows.

PacifiCorp is subject to market risk, counterparty performance risk and other risks associated with wholesale energy markets.

In general, market risk is the risk of adverse fluctuations in the market price of wholesale electricity and fuel, including natural gas and coal, which is compounded by energy volume changes affecting the availability of and/or demand for electricity and fuel. PacifiCorp purchases electricity and fuel in the open market or pursuant to short-term or variable-priced contracts as part of its normal operating business. If market prices rise, especially in a time when PacifiCorp requires larger than expected volumes that must be purchased at market or short-term prices, PacifiCorp may have significantly greater costs than anticipated. In addition, it may not be able to timely recover all, if any, of those increased costs through rate-making, due to retroactive rate-making prohibitions, unless deferred accounting or power cost recovery mechanisms have been previously authorized. Likewise, if electricity market prices drop in a period when PacifiCorp is a net seller of electricity in the wholesale market, PacifiCorp will earn less revenue, possibly to the extent of not recovering the cost of generating the electricity. Wholesale electricity prices are influenced primarily by factors throughout the western United States relating to supply and demand. Those factors include the adequacy of generating capacity, scheduled and unscheduled outages of generating facilities, hydroelectric generation levels, prices and availability of fuel sources for generation, disruptions or constraints to transmission facilities, weather conditions, economic growth, and changes in technology. Energy volume changes are caused by unanticipated changes in generation availability and/or changes in customer demand for power due to the weather, the economy and customer behavior. Although PacifiCorp plans for resources to meet its current and expected power delivery obligations, its power costs may be adversely impacted by market risk.

PacifiCorp is also exposed to risk related to performance of contractual obligations by its wholesale suppliers and customers. PacifiCorp relies on suppliers to deliver natural gas, coal and electricity in accordance with short- and long-term contracts. Failure or delay by suppliers to provide natural gas, coal or electricity pursuant to existing contracts could disrupt PacifiCorp's ability to deliver electricity and require it to incur additional expenses to meet the needs of its customers. In addition, as these contractual agreements end, PacifiCorp may not be able to continue to purchase natural gas, coal or electricity on terms equivalent to the terms of current contractual agreements. PacifiCorp relies on wholesale customers to take delivery of the energy they have committed to purchase and to pay for the energy on a timely basis. Failure of customers to take delivery may require PacifiCorp to find other customers to take the energy at lower prices than the original customers committed to pay. At certain times of year, prices paid by PacifiCorp for energy needed to satisfy its customers' demand for power may exceed the amounts PacifiCorp receives through retail rates from these customers. If the strategy PacifiCorp uses to economically hedge the exposure to these risks is ineffective, it could incur significant losses.

Weather conditions can adversely affect PacifiCorp's operating results.

Although PacifiCorp's service territory has historically experienced complementary seasonal customer power demand patterns as a result of the geographically diverse area of its operations, weather conditions can significantly affect operating results. For residential customers, within a given year, weather conditions are the dominant cause of usage variations from normal seasonal patterns. For example, in periods of unusually hot summer weather, residential customers tend to use significantly greater amounts of electricity to run air conditioners, which may substantially increase summer peak power demand. Changes in weather conditions and other natural events also impact customer behavior and power demand. Additionally, a portion of PacifiCorp's supply of electricity comes from hydroelectric projects that are dependent upon rainfall and snowpack. During or following periods of low rainfall or snowpack, PacifiCorp may obtain substantially less electricity from hydroelectric projects and must purchase greater amounts of electricity from the wholesale market or from other sources at market prices. Accordingly, variations in weather conditions can adversely affect PacifiCorp's results of operations through lower revenues and/or increased energy costs.

PacifiCorp is subject to environmental, health, safety and other laws and regulations that may adversely impact its business.

PacifiCorp is subject to a number of environmental, health, safety and other laws and regulations affecting many aspects of its present and future operations, including air emissions, water quality, endangered species, wastewater discharges, solid wastes, hazardous substances and safety matters. PacifiCorp may incur substantial costs and liabilities in connection with its operations as a result of these laws and regulations. In particular, the cost of future compliance with federal, state and local

clean air laws, such as those that relate to addressing regional haze issues and those that require certain generators, including some of PacifiCorp's electric generating facilities, to limit emissions of nitrogen oxide, sulfur dioxide, carbon dioxide, mercury and other potential pollutants or emissions, may require PacifiCorp to make significant capital expenditures that may not be recoverable through future rates. In addition, these costs and liabilities may include those relating to claims for damages to property and persons resulting from PacifiCorp's operations. Regulatory changes, including new interpretations of existing laws and regulations, imposing more comprehensive or stringent requirements on PacifiCorp, to the extent such changes would result in increased compliance costs or additional operating restrictions, could have a material adverse effect on PacifiCorp's business, financial position, results of operations and cash flows.

Furthermore, regulatory compliance for existing facilities and the construction of new facilities is a costly and time-consuming process, and intricate and rapidly changing environmental regulations may require major expenditures for permitting and create the risk of expensive delays or material impairment of value if projects cannot function as planned due to changing regulatory requirements or local opposition.

In addition to operational standards, environmental laws also impose obligations to clean up or remediate contaminated properties or to pay for the cost of such remediation, often upon parties that did not actually cause the contamination. Accordingly, PacifiCorp may become liable, either contractually or by operation of law, for remediation costs even if the contaminated property is not presently owned or operated by it, or if the contamination was caused by third parties during or prior to its ownership or operation of the property. Given the nature of the past industrial operations conducted by PacifiCorp and others at its properties, all potential instances of soil or groundwater contamination may not have been identified, even for those properties where an environmental site assessment or other investigation has been conducted. Although PacifiCorp has accrued reserves for its known remediation liabilities, future events, such as changes in existing laws or policies or their enforcement, or the discovery of currently unknown contamination, may give rise to additional remediation liabilities which may be material. Any failure to recover increased environmental, health or safety costs incurred by PacifiCorp may have a material adverse effect on its business, financial position, results of operations and cash flows.

Poor performance of pension plan investments and other factors impacting pension plan costs could unfavorably impact PacifiCorp's liquidity and results of operations.

PacifiCorp's costs of providing non-contributory defined benefit pension plans depend upon a number of factors, including the rates of return on plan assets, discount rates, the level of interest rates used to measure the required minimum funding levels of the plans, future government regulation and PacifiCorp's required or voluntary contributions made to the plans. While PacifiCorp complies with the minimum funding requirements under federal law, as of March 31, 2006 its projected benefit obligations, which include the impact of expected future compensation increases, exceeded the value of plan assets by approximately $513.6 million, including contributions made between the December 31, 2005 measurement date and March 31, 2006. Without sustained growth in the pension investments over time to increase the value of its pension plan assets, and depending upon the other factors described above, PacifiCorp could be required to fund its pension plans with significant amounts of cash. Such cash funding obligations, as well as the impact of the other factors described above, could have a material impact on PacifiCorp's liquidity by reducing its cash flows and could negatively affect its results of operations.

A downgrade in PacifiCorp's credit ratings could negatively affect its ability to access capital and its ability to economically hedge in wholesale markets.

Changes in PacifiCorp's financial performance, capital structure, the regulatory environment in which it operates and other factors expose it to the risk of a credit ratings downgrade by Standard and Poor's or Moody's Investor Services, the principal ratings agencies that evaluate PacifiCorp's creditworthiness and that of its debt securities and preferred stock. Although PacifiCorp has no rating-downgrade triggers that would accelerate the maturity dates of its outstanding debt. A downgrade in its credit ratings could directly increase the interest rates and commitment fees on its revolving credit agreement. A ratings downgrade also may reduce the accessibility and increase the cost of PacifiCorp's commercial paper program, its principal source of short-term borrowing, and may result in the requirement that PacifiCorp post collateral under certain of its power purchase and other agreements. In addition, a credit ratings downgrade could allow counterparties in the wholesale electric, wholesale natural gas and energy derivatives markets to require PacifiCorp to post a letter of credit or other collateral, make cash prepayments, obtain a guarantee agreement or provide other mutually agreeable security. These consequences of a credit ratings downgrade could increase PacifiCorp's borrowing and operating costs.

PacifiCorp has a substantial amount of debt, which could adversely affect its ability to obtain future financing and limit its expenditures.

As of March 31, 2006, PacifiCorp had $4.1 billion in total debt securities outstanding. Its principal financing agreements contain restrictive covenants that limit its ability to borrow funds, and any issuance of debt securities requires prior authorization from multiple state regulatory commissions. PacifiCorp expects that it will need to supplement cash generated from operations and availability under committed credit facilities with new issuances of long-term debt. However, if market conditions are not favorable for the issuance of long-term debt, or if an issuance of long-term debt would exceed contractual or regulatory limits, PacifiCorp may postpone planned capital expenditures, or take other actions, to the extent those expenditures are not fully covered by cash from operations or equity contributions from MEHC and not available under committed credit facilities.

MEHC may exercise its significant influence over PacifiCorp in a manner that would benefit MEHC to the detriment of PacifiCorp's creditors and preferred stockholders.

MEHC, through its subsidiary, owns all of PacifiCorp's common stock and therefore has significant influence over its business and any matters submitted for shareholder approval. In circumstances involving a conflict of interest between MEHC and PacifiCorp's creditors and preferred stockholders, MEHC could exercise its influence in a manner that would benefit MEHC to the detriment of PacifiCorp's creditors and preferred stockholders.

ITEM 1B. UNRESOLVED STAFF COMMENTS

No information is required to be reported pursuant to this item.

ITEM 2. PROPERTIES

PacifiCorp owns its principal properties in fee (except as indicated below), subject to defects and encumbrances that do not interfere materially with their use. Substantially all of PacifiCorp's electric utility properties are subject to the lien of PacifiCorp's Mortgage and Deed of Trust. See "Item 15. Exhibits, Financial Statement Schedules - Exhibit 4.1." PacifiCorp considers all of its properties to be well maintained, in good operating condition, and suitable for their intended purposes.

Headquarters/Offices

PacifiCorp's corporate offices consist of approximately 900,000 square feet of owned and leased office space located in several buildings in Portland, Oregon, and Salt Lake City, Utah. PacifiCorp's corporate headquarters are in Portland, but there are several executives and departments located in Salt Lake City. In addition to the corporate headquarters, PacifiCorp owns and leases approximately 1.2 million square feet of field office and warehouse space in various other locations in Utah, Oregon, Wyoming, Washington, Idaho and California. The field location square footage does not include offices located at PacifiCorp's generating plants.

Generation

PacifiCorp owns, or has an interest in, various hydroelectric, thermal and wind generating plants. A generator's nameplate rating is its full-load capacity (in megawatts) under normal operating conditions as defined by the manufacturer. The net capability is the maximum level a generator can operate at under specified conditions. The following table summarizes PacifiCorp's existing generating plants:

	Location	Energy Source	Unit Installation Date(s)	Nameplate Rating (MW)	Plant Net Capability (MW)
HYDROELECTRIC PLANTS (a)					
Swift No. 1 (b)	Cougar, WA	Lewis River	1958	240.0	264.0
Merwin	Ariel, WA	Lewis River	1931-1958	136.0	144.0
Yale	Amboy, WA	Lewis River	1953	134.0	165.0
Five North Umpqua Plants	Toketee Falls, OR	N. Umpqua River	1950-1956	136.5	138.5
John C. Boyle	Keno, OR	Klamath River	1958	90.4	94.0
Copco Nos. 1 and 2 Plants	Hornbrook, CA	Klamath River	1918-1925	47.0	54.5
Clearwater Nos. 1 and 2 Plants	Toketee Falls, OR	Clearwater River	1953	41.0	41.0
Grace	Grace, ID	Bear River	1908-1923	33.0	33.0
Prospect No. 2	Prospect, OR	Rogue River	1928	32.0	36.0
Cutler	Collingston, UT	Bear River	1927	30.0	29.1
Oneida	Preston, ID	Bear River	1915-1920	30.0	28.0
Iron Gate	Hornbrook, CA	Klamath River	1962	18.0	20.0
Soda	Soda Springs, ID	Bear River	1924	14.0	14.0
Fish Creek	Toketee Falls, OR	Fish Creek	1952	11.0	12.0
31 Minor Hydroelectric Plants (c)	Various	Various	1895-1990	90.7*	86.3*
Subtotal (51 Hydroelectric Plants)				1,083.6	1,159.4
THERMAL PLANTS					
Jim Bridger	Rock Springs, WY	Coal-Fired	1974-1979	1,541.1*	1,413.4*
Huntington	Huntington, UT	Coal-Fired	1974-1977	996.0	895.0
Dave Johnston	Glenrock, WY	Coal-Fired	1959-1972	816.8	762.0
Naughton	Kemmerer, WY	Coal-Fired	1963-1971	707.2	700.0
Hunter Nos. 1 and 2	Castle Dale, UT	Coal-Fired	1978-1980	727.9*	662.0*
Hunter No. 3	Castle Dale, UT	Coal-Fired	1983	495.6	460.0
Cholla No. 4	Joseph City, AZ	Coal-Fired	1981	414.0	380.0
Wyodak	Gillette, WY	Coal-Fired	1978	289.7*	268.0*
Carbon	Castle Gate, UT	Coal-Fired	1954-1957	188.6	172.0
Craig Nos. 1 and 2	Craig, CO	Coal-Fired	1979-1980	172.1*	165.0*
Colstrip Nos. 3 and 4	Colstrip, MT	Coal-Fired	1984-1986	155.6*	149.0*
Hayden Nos. 1 and 2	Hayden, CO	Coal-Fired	1965-1976	81.3*	78.0*
Currant Creek	Mona, UT	Natural Gas-Fired	2005-2006	566.9	523.0
Hermiston	Hermiston, OR	Natural Gas-Fired	1996	279.6*	237.0*
Gadsby Steam	Salt Lake City, UT	Natural Gas-Fired	1951-1952	257.6	235.0
Gadsby Peakers	Salt Lake City, UT	Natural Gas-Fired	2002	141.0	120.0
Little Mountain	Ogden, UT	Natural Gas-Fired	1972	16.0	14.0
Camas Co-Gen	Camas, WA	Black Liquor	1996	61.5	22.0
Blundell (d)	Milford, UT	Geothermal	1984	26.1	23.0
Subtotal (17 Thermal Electric Plants)				7,934.6	7,278.4
WIND PLANT					
Foote Creek	Arlington, WY	Wind Turbines	1998	32.6*	32.6*
Subtotal (1 Other Plant)				32.6	32.6
Total Generating Plants (69)				9,050.8	8,470.4

* Jointly owned plants; amount shown represents PacifiCorp's share only.

(a) Hydroelectric project locations are stated by locality and river watershed.

(b) On April 21, 2002, the Cowlitz County Public Utility District-owned Swift No. 2 power canal failed, impacting the operations of the PacifiCorp-owned 240.0 MW Swift No. 1 hydroelectric facility. In June 2004, PacifiCorp and Cowlitz County Public Utility District, through an amendment to an existing power purchase agreement, agreed to a

mechanism for settling all claims and terms of rebuilding. Reconstruction of the canal is nearing completion and the project began operating on an interim basis in the three months ended March 31, 2006.

(c) PacifiCorp has negotiated settlement agreements with resource agencies and other interested parties to decommission the American Fork, Condit, Cove Development and Powerdale hydroelectric plants, which have a combined net capability of 16.6 MW. These settlement agreements have been filed with the FERC and are pending further regulatory action.

(d) As a result of the settlement agreement between MEHC, the Utah Committee of Consumer Services ("CCS"), a state utility consumer advocate, and Utah Industrial Energy Consumers, MEHC contributed to PacifiCorp, at no cost, MEHC's indirect 100.0% ownership interest in Intermountain Geothermal Company, which controls 69.3% of the steam rights associated with the geothermal field serving PacifiCorp's Blundell Geothermal Plant in Utah. Therefore, Intermountain Geothermal Company became a wholly owned subsidiary of PacifiCorp in March 2006, subsequent to the sale of PacifiCorp to MEHC.

In May 2002, PacifiCorp entered into a 15-year operating lease for an electric generation facility with West Valley Leasing Company, LLC, an indirect subsidiary of ScottishPower. The Utah facility consists of five generation units with an aggregate nameplate rating of 217.0 MW and a net plant capability of 202.0 MW. PacifiCorp, at its sole option, may terminate the lease, or purchase the facility, if written notice is provided to West Valley on or before December 1, 2006. If the termination option is exercised, the lease would end in May 2008.

Transmission and Distribution

PacifiCorp's generating facilities are interconnected through PacifiCorp's own transmission lines or by contract through the transmission lines of other transmission owners. Substantially all of PacifiCorp's generating plants and reservoirs are managed on a coordinated basis to obtain maximum load-carrying capability and efficiency. Portions of PacifiCorp's transmission and distribution systems are located:

- On property owned or leased by PacifiCorp;
- Under or over streets, alleys, highways and other public places, the public domain and national forests and state lands under franchises, easements or other rights that are generally subject to termination;
- Under or over private property as a result of easements obtained primarily from the record holder of title; or
- Under or over Native American reservations under grant of easement by the Secretary of Interior or lease by Native American tribes.

It is possible that some of the easements, and the property over which the easements were granted, may have title defects or may be subject to mortgages or liens existing at the time the easements were acquired.

At March 31, 2006, PacifiCorp owned, or participated in, an electric transmission and distribution system consisting of:

Nominal Voltage (In kilovolts)	Miles
Transmission Lines	
500	720
345	1,900
230	3,360
161	280
138	2,050
115	1,540
69	2,970
57	110
46	2,650
	15,580
Distribution Lines Less than 46	59,510
Total	75,090

At March 31, 2006, PacifiCorp owned 908 substations.

Mining

PacifiCorp believes that the respective coal reserves available to the Craig, Huntington, Hunter and Jim Bridger Plants, together with coal available under both long-term and short-term contracts with external suppliers, will be substantially sufficient to provide these plants with fuel that meets the Clean Air Act standards for their current economically useful lives. Blending of PacifiCorp-owned and contracted coal, together with electricity plant technologies for controlling sulfur and other emissions, are utilized to meet the applicable standards. PacifiCorp-owned plants held sufficient sulfur dioxide emission allowances to comply with the EPA Title IV requirements during the compliance year. The sulfur content of the coal reserves ranges from 0.30% to 0.94%, and the British Thermal Units value per pound of the reserves ranges from 8,600 to 12,400.

Coal reserve estimates are subject to adjustment as a result of the development of additional engineering and geological data, new mining technology and changes in regulation and economic factors affecting the utilization of such reserves. Recoverable coal reserves at March 31, 2006, based on PacifiCorp's most recent engineering studies, were as follows:

Location	Plant Served	Mining Method	Recoverable Tons (in Millions)
Craig, CO	Craig	Surface	48.0 (a)
Huntington & Castle Dale, UT	Huntington and Hunter	Underground	61.1 (b)
Rock Springs, WY	Jim Bridger	Surface/Underground	139.2 (c)

(a) These coal reserves are leased and mined by Trapper Mining, Inc., a Delaware non-stock corporation operated on a cooperative basis, in which PacifiCorp has an ownership interest of 21.4%.

(b) These coal reserves are leased by PacifiCorp and mined by a wholly owned subsidiary of PacifiCorp.

(c) These coal reserves are leased and mined by Bridger Coal Company, a joint venture between Pacific Minerals, Inc. ("PMI") and a subsidiary of Idaho Power Company. PMI, a subsidiary of PacifiCorp, has a two-thirds interest in the joint venture. The Bridger mine is in the process of conversion from surface operation to primarily underground operation, while currently continuing production at its surface operations.

Recoverability by surface mining methods typically ranges from 90.0% to 95.0%. Recoverability by underground mining techniques ranges from 50.0% to 70.0%. Most of PacifiCorp's coal reserves are held pursuant to leases from the federal government through the Bureau of Land Management and from certain states and private parties. The leases generally have

multi-year terms that may be renewed or extended and require payment of rents and royalties. In addition, federal and state regulations require that comprehensive

environmental protection and reclamation standards be met during the course of mining operations and upon completion of mining activities. See "Item 8. Financial Statements and Supplementary Data – Note 6 – Asset Retirement Obligations and Accrued Environmental Costs."

ITEM 3. LEGAL PROCEEDINGS

In October 2005, PacifiCorp was added as a defendant to a lawsuit originally filed in February 2005 in state district court in Salt Lake City, Utah by USA Power, LLC and its affiliated companies, USA Power Partners, LLC and Spring Canyon, LLC (collectively, "USA Power"), against Utah attorney Jody L. Williams and the law firm Holme, Roberts & Owen, LLP, who represent PacifiCorp on various matters from time to time. USA Power is the developer of a planned generation project in Mona, Utah called Spring Canyon, which PacifiCorp, as part of its resource procurement process, at one time considered as an alternative to the Currant Creek Power Plant. USA Power's complaint alleges that PacifiCorp misappropriated confidential proprietary information in violation of Utah's Uniform Trade Secrets Act and accuses PacifiCorp of breach of contract and related claims. USA Power seeks $250.0 million in damages, statutory doubling of damages for its trade secrets violation claim, punitive damages, costs and attorneys' fees. PacifiCorp believes it has a number of defenses and intends to vigorously oppose any claim of liability for the matters alleged by USA Power. Furthermore, PacifiCorp expects that the outcome of this proceeding will not have a material impact on its consolidated financial position, results of operations or liquidity.

In October 2005, CCS filed a request for agency action with the UPSC. The request sought an order requiring PacifiCorp to return to Utah ratepayers certain monies collected in Utah rates for taxes, which the CCS alleges were improperly retained by PacifiCorp's parent company, PHI. The CCS has publicly announced it is seeking a refund of at least $50.0 million to Utah ratepayers. Following PacifiCorp's sale to MEHC in March 2006, the CCS, MEHC and intervening party Utah Industrial Energy Consumers filed with the UPSC an agreement settling the claims made by the CCS. In exchange for dismissal of the claims, MEHC agreed to contribute to PacifiCorp, at no cost, MEHC's 100.0% ownership interest in Intermountain Geothermal Company, which controls 69.3% of the steam rights associated with the geothermal field serving PacifiCorp's Blundell Geothermal Plant in Utah. The settlement agreement has been approved by the UPSC, which dismissed the CCS request.

In May 2004, PacifiCorp was served with a complaint filed in the United States District Court for the District of Oregon by the Klamath Tribes of Oregon, individual Klamath Tribal members and the Klamath Claims Committee. The complaint generally alleges that PacifiCorp and its predecessors affected the Klamath Tribes' federal treaty rights to fish for salmon in the headwaters of the Klamath River in southern Oregon by building dams that blocked the passage of salmon upstream to the headwaters beginning in 1911. In September 2004, the Klamath Tribes filed their first amended complaint adding claims of damage to their treaty rights to fish for sucker and steelhead in the headwaters of the Klamath River. The complaint seeks in excess of $1.0 billion in compensatory and punitive damages. In July 2005, the District Court dismissed the case and in September 2005 denied the Klamath Tribes' request to reconsider the dismissal. In October 2005, the Klamath Tribes appealed the District Court's decision to the Ninth Circuit Court of Appeals and briefing was completed in March 2006. Any final order will be subject to appeal. PacifiCorp believes the outcome of this proceeding will not have a material impact on its consolidated financial position, results of operations or cash flow.

In April 2004, PacifiCorp filed a complaint with the federal district court in Wyoming challenging the WPSC decision made in March 2003 to deny recovery of the Hunter No. 1 replacement power costs and certain deferred excess net power costs. The complaint was filed on the grounds that the decision violates federal law by denying PacifiCorp recovery in retail rates of its wholesale electricity and transmission costs incurred to serve Wyoming customers. In February 2006, PacifiCorp and certain parties intervening in its then-pending Wyoming general rate case reached a settlement of the terms of PacifiCorp's general rate case request. PacifiCorp also agreed to dismiss its federal lawsuit challenging the WPSC decision. The case was dismissed in May 2006.

In December 2004, a group of Utah customers filed a petition with the UPSC on behalf of themselves and other similarly situated customers seeking monetary compensation from PacifiCorp as a result of a severe winter storm in December 2003. This petition was substantially similar to an April 2004 petition that the UPSC resolved by consolidating customer requests with an ongoing regulatory winter storm inquiry. In May 2006, PacifiCorp reached a stipulation with the petitioners that resolved all claims in consideration of system maintenance and vegetation management commitments and additional credits for customers. The stipulation was approved by the UPSC on May 22, 2006.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No information is required to be reported pursuant to this item.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

PacifiCorp is an indirect subsidiary of MEHC, which owns all shares of PacifiCorp's outstanding common stock. Therefore, there is no public market for PacifiCorp's common stock. Dividend information required by this item is included in "Item 8. Financial Statements and Supplementary Data – Quarterly Financial Data."

The state regulatory orders that authorized the acquisition by MEHC contain restrictions on PacifiCorp's ability to pay dividends to the extent that they would reduce PacifiCorp's common stock equity below specified percentages of defined capitalization.

As of March 31, 2006, the most restrictive of these commitments prohibits PacifiCorp from making any distribution to PPW Holdings LLC or MEHC without prior state regulatory approval to the extent that it would reduce PacifiCorp's common stock equity below 48.25% of its total capitalization, excluding short-term debt and current maturities of long-term debt. After December 31, 2008, this minimum level of common equity declines annually to 44.0% after December 31, 2011. The terms of this commitment treat 50.0% of PacifiCorp's preferred stock outstanding prior to the acquisition of PacifiCorp by MEHC as common equity. As of March 31, 2006, PacifiCorp's actual common stock equity percentage, as calculated under this measure, exceeded the minimum threshold.

In addition, PacifiCorp is restricted from making any distributions to PPW Holdings LLC or MEHC if PacifiCorp's unsecured debt rating is BBB- or lower by Standard & Poor's Rating Services or Fitch Ratings or Baa3 or lower by Moody's Investor Service, as indicated by two of the three rating services. As of March 31, 2006, PacifiCorp's unsecured debt rating was BBB+ by Standard & Poor's Rating Services and Fitch Ratings and Baa1 by Moody's Investor Service.

PacifiCorp does not presently anticipate that it will declare dividends on common stock during the 12 months ending March 31, 2007.

PacifiCorp is also subject to maximum debt-to-total capitalization ratios under various debt agreements. For further discussion, see "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Capital Resources."

ITEM 6. SELECTED FINANCIAL DATA (Unaudited)

(Millions of dollars, except per share and employee amounts)	Years Ended March 31, 2006	2005	2004	2003	2002
Revenues:					
Electric Operations	$3,896.7	$3,048.8	$3,194.5	$3,082.4	$3,341.1
Australian Operations	—	—	—	—	—
Other Operations (a)	—	—	—	—	12.6
Total	$3,896.7	$3,048.8	$3,194.5	$3,082.4	$3,353.7
Income (loss) from operations:					
Electric Operations	$ 792.0	$ 656.4	$ 617.9	$ 488.9	$ 598.6
Australian Operations	—	—	—	—	27.4
Other Operations (a)	—	—	—	—	15.0
Total	$ 792.0	$ 656.4	$ 617.9	$ 488.9	$ 641.0
Net income	$ 360.7	$ 251.7	$ 248.1	$ 140.1	$ 327.3
Earnings on common stock:					
Continuing operations					
Electric Operations	$ 358.6	$ 249.6	$ 245.7	$ 134.7	$ 232.8
Australian Operations	—	—	—	—	27.4
Other Operations (a)	—	—	—	—	20.5
Total	358.6	249.6	245.7	134.7	280.7
Discontinued operations (b)	—	—	—	—	146.7
Cumulative effect of accounting change (c) (d) (e)	—	—	(0.9)	(1.9)	(112.8)
Total earnings on common stock	$ 358.6	$ 249.6	$ 244.8	$ 132.8	$ 314.6
Common dividends declared per share	$ 0.53	$ 0.62	$ 0.51	$ —	$ 0.81
Common dividends paid per share	$ 0.53	$ 0.62	$ 0.51	$ —	$ 1.00

	At March 31, 2006	2005	2004	2003	2002
Capitalization:					
Short-term debt	$ 184.4	$ 468.8	$ 124.9	$ 25.0	$ 177.5
Long-term debt, including current maturities	3,937.9	3,898.9	3,760.2	3,554.3	3,698.3
Preferred Securities of Trusts	—	—	—	341.8	341.5
Preferred stock subject to mandatory redemption	45.0	52.5	60.0	66.7	74.2
Preferred stock	41.3	41.3	41.3	41.3	41.3
Common equity	4,010.5	3,335.8	3,278.7	3,194.4	2,891.9
Total Capitalization	$ 8,219.1	$ 7,797.3	$ 7,265.1	$ 7,223.5	$ 7,224.7
Total assets	$12,731.3	$12,520.9	$11,677.1	$11,695.8	$10,234.9
Total employees	6,750	6,654	6,507	6,140	6,287

(a) Other Operations includes the activities of PacifiCorp Financial Services, Inc. and PacifiCorp Group Holdings Company, until their transfer in February 2002 to PacifiCorp's former parent company, PHI.

(b) The year ended March 31, 2002 includes the collection of a contingent note receivable relating to the discontinued operations of a former mining and resource development business, NERCO, Inc.

(c) The year ended March 31, 2004 reflects the effect of implementation of Statement of Financial Accounting Standards ("SFAS") No. 143, *Asset Retirement Obligations* ("SFAS No. 143").

(d) The year ended March 31, 2003 reflects the effect of the implementation of the Derivatives Implementation Group (the

"DIG") Revised Issue C15, *Normal Purchases and Normal Sales Exception for Certain Option-Type Contracts and Forward Contracts in Electricity* ("Issue C15"), and Issue C16, *Applying the Normal Purchases and Normal Sales Exception to Contracts that Combine a Forward Contract and a Purchased Option Contract* ("Issue C16").

(e) The year ended March 31, 2002, reflects the effect of the implementation of SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended, ("SFAS No. 133"). Upon receiving regulatory approval, PacifiCorp has subsequently recorded the effects of unrealized gains or losses on certain long-term contracts as regulatory assets and liabilities.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

OVERVIEW

The Management's Discussion and Analysis should be read in conjunction with the Consolidated Financial Statements.

PacifiCorp is a regulated electricity company serving approximately 1.6 million retail customers in service territories aggregating approximately 136,000 square miles in portions of the states of Utah, Oregon, Wyoming, Washington, Idaho and California. The regulatory commissions in each state approve rates for retail electric sales within their respective states. PacifiCorp also sells electricity on the wholesale market to public and private utilities, energy marketing companies and to incorporated municipalities. Wholesale activities are regulated by the FERC. PacifiCorp owns, or has interests in, 69 thermal, hydroelectric and wind generating plants, with an aggregate nameplate rating of 9,050.8 MW and plant net capability of 8,470.4 MW. The FERC and the six state regulatory commissions also have authority over the construction and operation of PacifiCorp's electric generation facilities. PacifiCorp delivers electricity through approximately 59,510 miles of distribution lines and approximately 15,580 miles of transmission lines.

Sale of PacifiCorp

As described in "Item 1. Business – Overview – Ownership by MEHC; Sale of PacifiCorp," MEHC completed its acquisition of PacifiCorp from ScottishPower and PHI on March 21, 2006. MEHC purchased all PacifiCorp common stock for approximately $5.1 billion in cash.

In January through March 2006, the state commissions in all six states where PacifiCorp has retail customers approved PacifiCorp's sale to MEHC. The approvals were conditioned on a number of regulatory commitments, including expected financial benefits in the form of reduced corporate overhead and financing costs, certain mid- to long-term capital and other expenditures of significant amounts and a commitment not to seek utility rate increases attributable solely to the change in ownership. The capital and other expenditures proposed by MEHC and PacifiCorp include:

- Approximately $812.0 million in investments (generally to be made over several years following the sale and subject to subsequent regulatory review and approval) in emissions reduction technology for PacifiCorp's existing coal plants, which, when coupled with the use of reduced emissions technology for anticipated new coal-fueled generation, is expected to result in significant reductions in emissions rates of sulfur dioxide, nitrogen oxide and mercury and to avoid an increase in the carbon dioxide emissions rate;
- Approximately $519.5 million in investments (to be made over several years following the sale and subject to subsequent regulatory review and approval) in PacifiCorp's transmission and distribution system that would enhance reliability, facilitate the receipt of renewable resources and enable further system optimization; and
- The addition of 400.0 MW of cost-effective renewable resources to PacifiCorp's generation portfolio by December 31, 2007, including 100.0 MW of cost-effective wind resources by March 21, 2007.

The commitments approved by the state commissions also include credits that will reduce retail rates generally through 2010 to the extent that PacifiCorp does not achieve identified cost reductions or demonstrate mitigation of certain risks to customers. The maximum potential value of these rate credits to customers in all six states is $142.5 million. PacifiCorp and MEHC have made additional commitments to the state commissions that limits the dividends PacifiCorp can make to MEHC or its affiliates. As of March 31, 2006, the most restrictive of these commitments prohibits PacifiCorp from making any distribution to PPW Holdings LLC or MEHC without prior state regulatory approval to the extent that it would reduce PacifiCorp's common stock equity below 48.25% of its total capitalization, excluding short-term debt and current maturities of long-term debt. After December 31, 2008, this minimum level of common equity declines annually to 44.0% after December 31, 2011. The terms of this commitment treat 50.0% of PacifiCorp's preferred stock outstanding prior to the acquisition of PacifiCorp by MEHC as common equity. As of March 31, 2006, PacifiCorp's actual common stock equity percentage, as calculated under this measure, exceeded the minimum threshold.

Forward-Looking Statements

This report includes forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. All statements, other than statements of historical fact, made in this report are forward-looking. When used in this Management's Discussion and Analysis of Financial Condition and Results of Operations and elsewhere in this report, the words "will," "may," "could," "believes," "estimates," "expects," "anticipates," "forecasts," "plans," "intends," "projected," "potential" and variations of such words and similar expressions are intended to identify forward-looking statements. Forward-looking statements included in this report relate to, among other matters, the effect on PacifiCorp of the following: regulatory commitments related to PacifiCorp's sale to MEHC; recently enacted Oregon Senate Bill 408; potential adjustment of regulatory rates to cover costs; growth of retail customers and demand; the impact of new accounting standards or accounting policy changes; the outcome of litigation or regulatory proceedings; the timing of future regulatory filings; environmental laws; federal energy policy and legislation; capital expenditure levels; results from, and the timing of, the construction or repair of generating facilities; hydroelectric relicensing and decommissioning activities; electricity outages; pension and other postretirement contributions; outcome of tax proceedings; growth in customers and usage; levels of hydroelectric and thermal generation; sufficiency of PacifiCorp's available funds to meet its liquidity needs and future financing; off-balance sheet arrangements; the effect of risk management measures, including use of financial derivatives to manage and mitigate interest rate exposure; fluctuations in forward prices for electricity and natural gas; and the efficiency and effectiveness of PacifiCorp's resource and fuel procurement. Forward-looking statements reflect management's current expectations, plans or projections and are inherently uncertain. There can be no assurance the results predicted will be realized. Actual results may vary from those represented by the forecasts, and those variations may be material. The following are among the factors, in addition to those set forth under "Item 1A. Risk Factors," that could cause actual results to differ materially from the forward-looking statements:

- The outcome of general rate cases and other proceedings conducted by regulatory commissions or other governmental and legal bodies;
- Changes in prices and availability (for both purchases and sales) of wholesale electricity, natural gas and other fuel sources and other changes in operating costs that could affect PacifiCorp's cost recovery;
- Changes in regulatory requirements or other legislation, including the recently enacted federal Energy Policy Act of 2005, legislation or regulatory outcomes limiting the ability of public utilities to recover income tax expense in retail rates such as Senate Bill 408, industry restructuring and deregulation initiatives;
- Industrial, commercial and residential customer growth and demographic patterns in PacifiCorp's service territories;
- Economic trends that could impact electricity usage;
- Changes in weather conditions and other natural events that could affect customer demand or electricity supply;
- A high degree of variance between actual and forecasted load and prices that could impact the hedging strategy and costs to balance electricity load and supply;
- Hydroelectric conditions, as well as natural gas and coal production and price levels, that could have a significant impact on electric capacity and cost and on PacifiCorp's ability to generate electricity;
- Performance of PacifiCorp's generation facilities, including the level of planned and unplanned outages;
- The cost, feasibility and eventual outcome of hydroelectric facility relicensing proceedings;
- Changes in, and compliance with, environmental and endangered species laws, regulations, decisions and policies that could increase operating and capital improvement costs, reduce plant output and/or delay plant construction;
- Changes resulting from MEHC ownership;
- The impact of new accounting pronouncements or changes in current accounting estimates and assumptions on financial position and results of operations;

- The impact of interest rates, investment performance and increases in health care costs on pension and post-retirement expense;
- Continued availability of funds to meet liquidity requirements;
- The impact of any required performance under off-balance sheet arrangements;
- Financial condition and creditworthiness of significant customers and suppliers;
- The impact of financial derivatives used to mitigate or manage interest rate risk and volume and price risk due to weather extremes;
- Changes in PacifiCorp's credit ratings;
- Timely and appropriate completion of PacifiCorp's resource procurement process, unanticipated construction delays, changes in costs, receipt of required permits and authorizations, ability to fund resource projects and other factors that could affect future generation plants and infrastructure additions;
- Other risks or unforeseen events, including wars, the effects of terrorism, embargos and other catastrophic events; and
- Other business or investment considerations that may be disclosed from time to time in SEC filings or in other publicly disseminated written documents.

Any forward-looking statements issued by PacifiCorp should be considered in light of these factors. PacifiCorp does not intend to update or revise any forward-looking statements to reflect actual results, changes in assumptions or changes in other factors affecting such forward-looking statements or if PacifiCorp later becomes aware that these assumptions are not likely to be achieved.

Accounting Matters

Critical Accounting Estimates and Related Policies

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the results of operations and the reported amounts of assets and liabilities in the Consolidated Financial Statements. The estimates and assumptions may change as time passes and accounting guidance evolves. Management bases its estimates and assumptions on historical experience and on other various judgments that it believes are reasonable at the time of application. Changes in these estimates and assumptions could have a material impact on the Consolidated Financial Statements. If estimates and assumptions are different than the actual amounts recorded, adjustments are made in subsequent periods to take into consideration the new information. Critical accounting estimates, in addition to certain less significant accounting estimates, are discussed with senior members of management and PacifiCorp's Board of Directors, as appropriate, and were previously disclosed to the ScottishPower Audit Committee and from March 21, 2006 are disclosed to the MEHC Audit Committee. Those estimates that management considers critical are described below.

Derivatives

On April 1, 2001, PacifiCorp adopted SFAS No. 133, as amended. PacifiCorp uses derivative instruments (primarily forward purchases and sales) to manage the commodity price risk inherent in its fuel and electricity obligations, as well as to optimize the value of power generation assets and related contracts. PacifiCorp also enters into short-term energy derivatives on a limited basis for arbitrage purposes to take advantage of opportunities arising from market inefficiencies.

SFAS No. 133 requires that derivative instruments be recorded on the balance sheet at fair value. The fair values of derivative instruments are determined using forward price curves. Forward price curves represent PacifiCorp's estimates of the prices at which a buyer or seller could contract today for delivery or settlement of a commodity at future dates. PacifiCorp bases its forward price curves upon market price quotations when available and uses internally developed, modeled prices when market quotations are unavailable. In general, PacifiCorp estimates the fair value of a contract by calculating the present value of the difference between the contract and the applicable forward price curve.

Price quotations for certain major electricity trading hubs are generally readily obtainable for the first six years and, therefore, PacifiCorp's forward price curves for those locations and periods reflect observable market quotes. However, in the later years or for locations that are not actively traded, forward price curves must be estimated in other ways. For short-term contracts at less actively traded locations, prices are modeled based on observed historical price relationships with actively traded locations. For long-term contracts extending beyond six years, the forward price curve is based upon the use of a fundamentals model (cost-to-build approach), due to the limited information available. Factors used in the fundamentals model include the forward prices for the commodities used as fuel to generate electricity, the expected system heat rate (which measures the efficiency of power plants in converting fuel to electricity) in the region where the purchase or sale takes place and a fundamentals forecast of expected spot prices for a commodity in a region based on modeled supply of and demand for the commodity in the region. The assumptions in these models are critical, since any changes in assumptions could have a significant impact on the fair value of the contract.

Despite the large volume of implementation guidance, SFAS No. 133 and the supplemental guidance do not provide specific guidance on all contract issues. As a result, significant judgment must be used in applying SFAS No. 133 and its interpretations.

Pensions and Other Postretirement Benefits

PacifiCorp sponsors defined benefit pension plans that cover the majority of its employees. In addition, certain bargaining unit employees participate in a joint trust plan to which PacifiCorp contributes. PacifiCorp accounts for these plans in accordance with SFAS No. 87, *Employers' Accounting for Pensions* ("SFAS No. 87"). PacifiCorp accounts for its other postretirement benefit plan in accordance with SFAS No. 106, *Employers' Accounting for Postretirement Benefits Other than Pensions* ("SFAS No. 106"). The expense and benefit obligations relating to PacifiCorp's pension and other postretirement benefit plans are based on actuarial valuations. Inherent in these valuations are key assumptions, including discount rates, expected returns on plan assets, compensation increases, PacifiCorp contributions and health care cost trend rates. These actuarial assumptions are reviewed annually and modified as appropriate. The effect of modifications is generally amortized over future periods. PacifiCorp believes that the assumptions utilized in recording obligations under the plans are reasonable based on prior experience, market conditions and the advice of plan actuaries. However, actual results may differ from such assumptions.

The PacifiCorp Retirement Plan (the "Retirement Plan") currently has assets with a fair value that is less than the accumulated benefit obligation, primarily due to declines in the equity markets during calendar years 2000 through 2002 and lower discount rates. PacifiCorp recognized a minimum pension liability in the three months ended March 31, 2003, and continues to recognize this liability at March 31, 2006. The liability adjustment did not affect the consolidated results of operations. PacifiCorp requested and received accounting orders from the regulatory commissions in Utah, Oregon, Wyoming and Washington to classify most of this charge as a Regulatory asset instead of a charge to Other comprehensive income. This increase to Regulatory assets was adjusted as of March 31, 2006 and 2005 and will be adjusted in future periods as the difference between the fair value of the trust assets and the accumulated benefit obligation changes. PacifiCorp has determined that costs related to SFAS No. 87 for the Retirement Plan are currently recoverable in rates.

PacifiCorp's contributions to the Retirement Plan have exceeded the minimum funding requirements of the Employee Retirement Income Security Act ("ERISA"). PacifiCorp made $63.7 million in cash contributions to the Retirement Plan during the year ended March 31, 2006, including those contributions made between the December 31, 2005 measurement date and March 31, 2006, and made $61.6 million in cash contributions to the Retirement Plan during the year ended March 31, 2005. In April 2006, PacifiCorp contributed $72.7 million to its Retirement Plan and expects to contribute another $11.0 million to its pension plans in the 12 months ending March 31, 2007. PacifiCorp is funding the Retirement Plan at what it believes to be an adequate level, but it currently expects to make larger cash contributions in the future due to its underfunded pension obligation and ERISA requirements. Such cash requirements could be material to PacifiCorp's cash flows. PacifiCorp believes it has adequate access to capital resources to support these contributions. As of March 31, 2006, PacifiCorp's underfunded status of the pension plans was $513.6 million, including contributions made between the December 31, 2005 measurement date and March 31, 2006. For further details, see "Item 8. Financial Statements – Note 17 – Employee Benefits," which are incorporated by reference into this Item 7.

PacifiCorp discounted its future pension and other postretirement plan obligations using a rate of 5.75% at March 31, 2006 and 2005. Thus, the discount rate used for PacifiCorp's expense during the 12 months ended March 31, 2006 was 5.75% and the discount rate that will be used for PacifiCorp's expense during the 12 months ending March 31, 2007 will also be 5.75%. PacifiCorp chooses a discount rate based upon high quality fixed-income investment yields. The pension and other postretirement benefit liabilities, as well as expenses, increase as the discount rate is reduced.

At March 31, 2006, PacifiCorp assumed that the pension and other postretirement assets would generate a long-term rate of return of 8.50% for the 12 months ending March 31, 2007 compared to an assumed rate of return of 8.75% for the year ended March 31, 2006. In establishing its assumption as to the expected return on assets, PacifiCorp reviews the expected asset allocation and develops return assumptions for each asset class based on historical performance and independent advisors' forward-looking views of the financial markets. Pension and other postretirement benefit expenses increase as the expected rate of return on Retirement Plan and other postretirement benefit plan assets decreases.

Based on the above assumptions, PacifiCorp expects to record pension expense of $71.0 million for the 12 months ending March 31, 2007, compared to $63.8 million for the year ended March 31, 2006.

The following table reflects the sensitivities of the March 31, 2006 disclosures and the projected pension expense for the 12 months ending March 31, 2007 associated with a change in certain actuarial assumptions by the indicated percentage:

(Millions of dollars) Actuarial Assumption	Change in Assumption	Impact on Projected Benefit Obligation Increase (Decrease)	Impact on Minimum Pension Liability Increase (Decrease)	Impact on Annual Pension Cost Increase (Decrease)
Expected long-term return on plan assets	(0.5)%	$ —	$ —	$ 4.2
Expected long-term return on plan assets	0.5	—	—	(4.2)
Discount rate	(0.5)	89.4	77.9	8.9
Discount rate	0.5	(83.7)	(73.0)	(8.7)

PacifiCorp expects to record other postretirement benefit expense of $36.6 million for the 12 months ending March 31, 2007, compared to $29.9 million for the year ended March 31, 2006. PacifiCorp has determined that costs related to SFAS No. 106 for other postretirement benefits are currently recoverable in rates. PacifiCorp contributed $29.7 million for the year ended March 31, 2006 and $24.9 million for the year ended March 31, 2005 to the funding vehicles for its postretirement benefit plan. PacifiCorp expects to contribute $36.6 million to its other postretirement benefit plans for the 12 months ending March 31, 2007. As of March 31, 2006, PacifiCorp's underfunded status of the other postretirement benefit plans was $260.6 million, including contributions made between the December 31, 2005 measurement date and March 31, 2006. For further details, see "Item 8. Financial Statements – Note 17 – Employee Benefits," which are incorporated by reference into this Item 7.

In valuing its accumulated postretirement benefit obligation, PacifiCorp must make an assumption regarding future changes in health care costs. Assumed changes impact the obligation and expense as follows:

(Millions of dollars) Assumed health care cost trend rates	Impact on Accumulated Postretirement Benefit Obligation Increase (Decrease)	Impact on Annual Other Postretirement Benefit Cost Increase (Decrease)
One percentage point increase	$ 43.7	$ 6.2
One percentage point decrease	(35.5)	(5.1)

Regulation

PacifiCorp prepares its Consolidated Financial Statements in accordance with SFAS No. 71, *Accounting for the Effects of Certain Types of Regulation* ("SFAS No. 71"). SFAS No. 71 requires PacifiCorp to reflect the impact of regulatory decisions in its Consolidated Financial Statements and requires that certain costs be deferred on the balance sheet until matching revenues can be recognized. Similarly, certain items may be deferred as regulatory liabilities and are amortized to the Consolidated Statements of Income as rates to customers are reduced or costs

previously recovered in rates are actually incurred. SFAS No. 71 provides that regulatory assets may be capitalized if it is probable that future revenue in an amount at least equal to the capitalized costs will result from their treatment as allowable costs for rate-making purposes. In addition, the rate action should permit recovery of the specific previously incurred cost rather than provide for expected levels of similar future costs.

PacifiCorp is subject to state and federal regulation. In the event of deregulation, PacifiCorp would seek recovery of its net regulatory assets and any additional stranded costs. If unsuccessful, the unrecoverable portion of its net regulatory assets would be written-off and PacifiCorp would evaluate the remaining assets on its balance sheet for impairment in accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*. PacifiCorp is unable to predict the likelihood of deregulation and its future impacts.

At March 31, 2006, PacifiCorp had recorded specifically identified regulatory assets, net of regulatory liabilities, totaling $174.3 million. In the event PacifiCorp stopped applying SFAS No. 71 at March 31, 2006, an after-tax loss of approximately $108.2 million would be recognized.

Unbilled Revenues

Electricity sales to retail customers are determined based on meter readings taken throughout the month. PacifiCorp accrues an estimate of unbilled revenues, net of estimated line losses, each month for electric service provided after the meter reading date to the end of the month. The unbilled revenue estimate is based on three components: PacifiCorp's total electricity delivered during the month, assignment of unbilled revenues to customer type and valuation of the unbilled energy. Factors involved in the estimation of consumption and line losses relate to weather conditions, amount of natural light, historical trends, economic impacts and customer type. Valuation of unbilled energy is based on estimating the average price for the month for each customer type. These estimates can vary significantly from period to period depending on monthly weather patterns, customers' space heating and cooling, production levels due to economic activity or changing irrigation patterns due to precipitation conditions.

Differences between estimated unbilled revenue and the subsequently billed revenue would most likely occur due to the variation in assignments of customer usage by revenue class and jurisdiction or variations from estimates of line losses due to changes related to line capacity utilization and weather conditions. At March 31, 2006, the amount accrued for unbilled revenues was $148.2 million.

Contingencies

PacifiCorp follows SFAS No. 5, *Accounting for Contingencies* ("SFAS No. 5"), to determine accounting and disclosure requirements for contingencies. According to SFAS No. 5, an estimated loss from a contingency shall be charged to income if (i) it is probable that an asset has been impaired or a liability has been incurred at the date of the financial statements, and (ii) the amount of the loss can be reasonably estimated. Disclosure in the notes to the financial statements is required for loss contingencies not meeting both of these conditions if there is a reasonable possibility that a loss may have been incurred. Gain contingencies are not recorded until realized.

PacifiCorp operates in a highly regulated environment. Governmental bodies such as the FERC, state regulatory commissions, the SEC, Internal Revenue Service, Department of Labor, the EPA and others have authority over various aspects of PacifiCorp's business operations and public reporting. Reserves are established when required based upon management's best judgment. Appropriate disclosures are made regarding litigation, tax matters, environmental issues, assessments and creditworthiness of customers or counterparties, among others. The evaluation of these contingencies is performed by various specialists inside and outside of PacifiCorp. Accounting for contingencies requires significant judgment by management regarding the estimated probabilities and ranges of exposure to potential loss. Management's assessment of PacifiCorp's exposure to contingencies could change as new developments occur or more information becomes available. The outcome of the contingencies could vary significantly and could materially impact PacifiCorp's consolidated financial position, results of operations and cash flows. Management has used its best judgment in applying SFAS No. 5 to these matters.

New Accounting Standards

For new accounting standards, see "Item 8. Financial Statements – Note 1 – Summary of Significant Accounting Policies," which are incorporated by reference into this Item 7.

RESULTS OF OPERATIONS

Overview

PacifiCorp's net income was $360.7 million for the year ended March 31, 2006 compared to $251.7 million for the year ended March 31, 2005. Significant factors affecting results for the year ended March 31, 2006 included higher retail prices approved by regulators, customer growth and a net increase in customer usage, as well as increased generation output, partially offset by higher operations and maintenance expense, including employee-related expenses, and the impact of increased fuel prices. The increase in net income was also significantly affected by a $78.4 million increase in net unrealized gains on wholesale sales, wholesale purchase and fuel contracts primarily due to movements in forward prices.

Retail energy sales volumes grew by 2.4% in the year ended March 31, 2006 compared to the year ended March 31, 2005. PacifiCorp's number of retail customers has been increasing by approximately 2.0% annually over the past four years. This trend is expected to continue for the foreseeable future. Increased customer usage, which also contributed to the higher volumes, is generally affected by economic and weather conditions, consumer trends and energy savings programs.

In recent years, PacifiCorp has filed general rate cases in all six states where it has retail customers, with the objective of keeping customer rates closely aligned to ongoing operating costs and to recover costs of capital investments. PacifiCorp may make additional general rate case filings in certain states over the coming year. PacifiCorp's regulatory program has also included various other filings such as proposed power cost adjustment mechanisms. See "Item I. Business – Regulation" for developments regarding state regulatory issues and pending rate case filings.

PacifiCorp relies on electricity generated by its thermal facilities to meet a substantial portion of its customer load. PacifiCorp's maintenance and overhaul programs are utilized to facilitate reliable generation availability at its thermal facilities through planned outages, but PacifiCorp still may experience unplanned outages. During these outage periods, other owned generation or wholesale market purchases are utilized to balance system requirements. PacifiCorp's hydroelectric facilities are utilized as lower-cost sources of electricity generation but are dependent upon precipitation, temperatures and other variables. Wholesale energy sales and purchase contracts are utilized to balance PacifiCorp's physical excess or shortage of net electricity and are impacted by the movements in the market prices of both natural gas and electricity. While increased thermal generation output reduces the need for wholesale market purchases, its financial impact can be significantly affected by market prices for coal and natural gas.

Output from PacifiCorp's thermal plants increased by 1,055,579 megawatt-hours ("MWh"), or 2.2%, during the year ended March 31, 2006 compared to the year ended March 31, 2005. The Currant Creek Power Plant commenced full combined-cycle operation in March 2006, adding 523.0 MW of capability to PacifiCorp's generation portfolio. Construction of the Lake Side Power Plant is progressing and is expected to begin operations in May 2007. Once in full commercial operation, the Lake Side Power Plant will add an estimated capability of 550.0 MW to meet expected future energy needs.

Output from PacifiCorp-owned hydroelectric facilities for the year ended March 31, 2006 increased by 1,074,640 MWh, or 35.0%, as compared to the year ended March 31, 2005. This increase was primarily attributable to current-year water conditions that, although slightly lower than normal, improved relative to the prior-year period. PacifiCorp's hydroelectric generation was 98.2% of normal for the year ended March 31, 2006, based on a 30-year average. Hydroelectric generation has been below normal for the past six years. PacifiCorp cannot predict if this trend will continue in future years.

PacifiCorp continues to experience increasing employee costs primarily due to rising healthcare and pension costs, additional employees and normal annual salary and wage increases. Pension costs continue to increase as a result of previous years' decreases in discount rates, which result in increases in PacifiCorp's projected benefit obligation, as well as the recognition of deferred losses from previous years' lower-than-expected plan asset returns.

Wholesale energy sales and purchase contracts that meet the definition of a derivative are recorded at fair value. For derivative contracts, when forward prices are higher than contract prices, wholesale energy sales contracts will have unrealized losses and wholesale purchase contracts will have unrealized gains. The opposite is true when forward prices are lower than contract prices. Unrealized gains and losses will reverse in future periods when the contracts settle at contract prices. They do not result in cash collections or payments other than in obtaining or providing cash collateral required in support of certain contracts. See "Item 8. Financial Statements – Note 3 – Derivative Instruments" for a summary of unrealized gains and losses on wholesale energy sales and purchase contracts.

Year Ended March 31, 2006 Compared to Year Ended March 31, 2005

Revenues

(Millions of dollars)	Year Ended March 31,		Favorable/(Unfavorable)	
	2006	2005	$ Change	% Change
Retail	$ 2,808.6	$ 2,648.8	$ 159.8	6.0%
Wholesale sales and other	1,088.1	400.0	688.1	172.0
Total revenues	$ 3,896.7	$ 3,048.8	$ 847.9	27.8
Retail energy sales (thousands of MWh)	50,112	48,919	1,193	2.4
Total retail customers (in thousands)	1,640	1,605	35	2.2

Retail revenues increased $159.8 million, or 6.0%, primarily due to:

- $74.1 million of increases from higher prices approved by regulators;
- $43.2 million of increases related to growth in the number of residential and commercial customers;
- $28.7 million of increases due to higher average residential and industrial customer usage, net of decreases in commercial and other customer usage; and
- $13.8 million of increases due to changes in price mix, resulting from the levels of customer usage at different customer tariffs in the various states that PacifiCorp serves.

Wholesale sales and other revenues increased $688.1 million, or 172.0%, primarily due to:

- $554.4 million of increases from higher unrealized gains on short- and long-term energy sales contracts recorded at fair value, primarily due to changes in forward prices;
- $108.7 million of increases in wholesale electric sales, primarily due to higher prices;
- $29.2 million of increases resulting from sales of sulfur dioxide emission allowances;
- $11.0 million of increases in wholesale natural gas sales: and
- $8.2 million of increases in revenues from the settlement of amounts previously disputed with third parties; partially offset by,
- $28.2 million of decreases related to non-physically settled system balancing transactions.

Operating Expenses

(Millions of dollars)	Year Ended March 31,		Favorable/(Unfavorable)	
	2006	2005	$ Change	% Change
Energy costs	$ 1,545.1	$ 948.0	$ (597.1)	(63.0)%
Operations and maintenance	1,014.5	913.1	(101.4)	(11.1)
Depreciation and amortization	448.3	436.9	(11.4)	(2.6)
Taxes, other than income taxes	96.8	94.4	(2.4)	(2.5)

Total operating expenses	$ 3,104.7	$ 2,392.4	$ (712.3)	(29.8)

Energy costs increased $597.1 million, or 63.0%, primarily due to:

- $469.5 million of increases from higher unrealized losses on short- and long-term energy purchase contracts recorded at fair value, primarily due to changes in forward prices;
- $43.5 million of increases related to unfavorable changes in the fair value of streamflow weather derivative contracts resulting primarily from improved streamflow conditions in the current year compared to prior forecasts;

- $40.7 million of increases in purchased electricity due to higher prices and volumes;
- $14.8 million of increases related to higher volumes of coal consumed due primarily to an increase in thermal generation;
- $13.9 million of increases related to higher prices for coal consumed; and
- $11.2 million of increases related to higher wheeling expenses.

Operations and maintenance expense increased $101.4 million, or 11.1%, primarily due to:

- $43.7 million of increases in employee expenses, primarily due to an increase in headcount and higher benefit and pension costs;
- $17.0 million in employee severance expense incurred during the current year;
- $11.3 million of increases in materials and supplies utilized in plant overhaul activities;
- $9.7 million of increases in third-party contract and service fees; and
- $7.2 million of increases from services rendered by Scottish Power UK plc prior to the sale of PacifiCorp to MEHC, and charged to PacifiCorp pursuant to the affiliated interest cross-charge policy.

Depreciation and amortization expense increased $11.4 million, or 2.6%, primarily due to:

- $13.9 million of increases in depreciation expense due to additions to plant in service; partially offset by,
- $3.0 million of decreases in amortization expense predominantly due to certain capitalized software becoming fully amortized.

Interest and Other (Income) Expense

(Millions of dollars)	Year Ended March 31,		Favorable/(Unfavorable)	
	2006	2005	$ Change	% Change
Interest expense	$ 279.9	$ 267.4	$ (12.5)	(4.7)%
Interest income	(9.5)	(9.1)	0.4	4.4
Interest capitalized	(32.4)	(14.8)	17.6	118.9
Minority interest and other	(6.1)	(7.3)	(1.2)	(16.4)
Total	$ 231.9	$ 236.2	$ 4.3	1.8

Interest expense increased $12.5 million, or 4.7%, primarily due to:

- Higher average debt outstanding and higher variable rates during the year ended March 31, 2006; partially offset by,
- Lower average fixed rates on long-term debt during the year ended March 31, 2006.

Interest capitalized increased $17.6 million, or 118.9%, primarily due to higher average construction work-in-progress balances that qualify for capitalized interest and higher capitalization rates during the year ended March 31, 2006.

Minority interest and other expense changed $1.2 million, primarily due to lower gains on net investments for the year ended March 31, 2006 compared to the year ended March 31, 2005.

Income Tax Expense

Income tax expense increased $30.9 million, or 18.3%, primarily due to:

- $49.0 million of increases due to higher levels of income from continuing operations before income taxes for the year ended March 31, 2006; and
- $9.7 million of increases in the income tax contingency reserve; partially offset by,
- $9.2 million of decreases from the tax effect of the regulatory treatment of book and tax depreciation differences of

$3.1 million and of the regulatory treatment of other differences of $6.1 million;

- $5.4 million of decreases due to permanent book and tax differences of Internal Revenue Service settlements in the prior year;
- $5.0 million of decreases from the tax effect of increases in depletion expense; and
- $4.3 million of decreases from the tax effect of certain state income tax credits.

Year Ended March 31, 2005 Compared to Year Ended March 31, 2004

Revenues

(Millions of dollars)	Year Ended March 31,		Favorable/(Unfavorable)	
	2005	2004	$ Change	% Change
Retail	$ 2,648.8	$ 2,547.0	$ 101.8	4.0%
Wholesale sales and other	400.0	647.5	(247.5)	(38.2)
Total revenues	$ 3,048.8	$ 3,194.5	$ (145.7)	(4.6)
Retail energy sales (thousands of MWh)	48,919	48,679	240	0.5
Total retail customers (in thousands)	1,605	1,570	35	2.2

Retail revenues increased $101.8 million, or 4.0%, primarily due to:

- $108.9 million of increases from higher prices approved by regulators; and
- $49.0 million of increases relating to growth in the number of residential, commercial and industrial customers; partially offset by,
- $39.8 million of decreases from lower average residential customer usage, net of increases in commercial usage; and
- $7.3 million of decreases due to a change in price mix, which resulted from the levels of customer usage at different customer tariffs in the various states that PacifiCorp serves.

Wholesale sales and other revenues decreased $247.5 million, or 38.2%, primarily due to:

- $300.6 million of decreases from higher unrealized losses on short- and long-term energy sales contracts recorded at fair value, primarily due to changes in forward prices; and
- $48.1 million of decreases related to non-physically settled system balancing transactions; partially offset by,
- $47.2 million of increases due to higher revenues related to regulatory asset recovery, including $27.9 million due to a new tariff in Utah;
- $45.9 million of increases in wholesale electric sales due to higher volumes and prices; and
- $2.8 million of increases due to higher wheeling revenue.

Operating Expenses

(Millions of dollars)	Year Ended March 31,		Favorable/(Unfavorable)	
	2005	2004	$ Change	% Change
Energy costs	$ 948.0	$ 1,156.7	$ 208.7	18.0%
Operations and maintenance	913.1	895.8	(17.3)	(1.9)
Depreciation and amortization	436.9	428.8	(8.1)	(1.9)
Taxes, other than income taxes	94.4	95.3	0.9	0.9
Total operating expenses	$ 2,392.4	$ 2,576.6	$ 184.2	7.1

Energy costs decreased $208.7 million, or 18.0%, primarily due to:

- $302.9 million of decreases from higher unrealized gains on short- and long-term energy purchase contracts recorded at fair value, primarily due to changes in forward prices;

- $27.5 million of decreases due to favorable changes in fair value on streamflow weather derivative contracts; and
- $9.9 million of decreases due to lower volumes of coal consumed due mainly to a reduction in thermal plant generation; partially offset by,
- $98.4 million of increases in purchased electricity due to higher volumes and prices; and
- $30.0 million of increases due to higher prices for coal consumed.

Operations and maintenance expense increased $17.3 million, or 1.9%, primarily due to:

- $44.3 million of increases in employee salary expense and other direct employee expenses, primarily due to an increase in headcount and higher benefit and pension costs;
- $14.9 million of increases from services rendered by Scottish Power UK plc and charged to PacifiCorp pursuant to ScottishPower's affiliated interest cross-charge policy, which became effective April 1, 2004; and
- $12.1 million of net increases due to changes in regulatory assets and liabilities, including $27.0 million of increased Utah demand-side management amortization; partially offset by,
- $26.9 million of decreases in third-party contract and service fees, including a reduction in the use of contractors for certain activities, including information technology, planned outages and field operations;
- $5.5 million of a decrease due to the recognition of claims in the prior year due to the bankruptcy of an insurance carrier; and
- $5.5 million of decreases in insurance costs.

Depreciation and amortization expense increased $8.1 million, or 1.9%, primarily due to:

- $15.8 million of increases in depreciation and amortization expense due to an increase in plant in service; and
- $4.6 million of increases in amortization expense due to higher capitalized software balances; partially offset by,
- $12.9 million of decreases in capitalized software amortization following a change in the estimated useful lives of certain computer software systems.

Interest and Other (Income) Expense

(Millions of dollars)	Year Ended March 31,		Favorable/(Unfavorable)	
	2005	2004	$ Change	% Change
Interest expense	$ 267.4	$ 256.5	$ (10.9)	(4.2)%
Interest income	(9.1)	(13.8)	(4.7)	(34.1)
Interest capitalized	(14.8)	(19.9)	(5.1)	(25.6)
Minority interest and other	(7.3)	1.6	8.9	556.3
Total	$ 236.2	$ 224.4	$ (11.8)	(5.3)

Interest expense increased $10.9 million, or 4.2%, primarily due to $8.9 million of increases resulting from an increase in average amount of debt outstanding, due in part to the refinancing of $352.0 million of Preferred securities redeemed in August 2003 with long-term debt, partially offset by a decrease in average interest rates.

Interest income decreased $4.7 million, or 34.1%, primarily due to decreases in interest income on regulatory assets.

Interest capitalized decreased $5.1 million, or 25.6%, primarily due to lower average capitalization rates applied to higher qualifying construction work-in-progress balances during the year ended March 31, 2005.

Minority interest and other expense changed $8.9 million, primarily due to:

- $11.7 million of a decrease in expense relating to distributions on Preferred securities, which were redeemed in August 2003;
- $2.3 million of a decrease in charitable donations; partially offset by,
- $4.3 million of an increase in income relating to proceeds from company-owned life insurance.

Income Tax Expense

Income tax expense increased $24.0 million, or 16.6%, primarily due to:

- $14.2 million of increases in the federal tax contingency reserve due to $8.5 million of additional accruals in the current year related to new activities/development of tax examinations, compared to $5.7 million of contingency reserve releases in the prior year due to the resolution of certain tax examinations;
- $9.5 million of increases due to higher levels of income from continuing operations before income taxes and cumulative effect of accounting change for the year ended March 31, 2005; and
- $5.4 million of increases due to permanent book and tax differences of Internal Revenue Service settlements; partially offset by,
- $3.9 million of decreases from the tax effect of regulatory treatment of book and tax differences; and
- $3.7 million of decreases in state income tax effect.

LIQUIDITY AND CAPITAL RESOURCES

Sources and Uses of Cash

PacifiCorp depends on both internal and external sources of liquidity to provide working capital and to fund capital requirements. Short-term cash requirements not met by cash provided by operating activities are generally satisfied with proceeds from short-term borrowings. Long-term cash needs are met through sales of securities, including additional long-term debt issuances, and, in the past, also by issuance of common stock to PacifiCorp's former parent company, PHI. PacifiCorp expects it will need additional periodic equity contributions from its existing parent over the next five years. Issuance of longer-term securities is influenced by levels of short-term debt, cash from operations, capital expenditures, market conditions, regulatory approvals and other considerations.

Operating Activities

Net cash flows provided by operating activities increased $183.5 million to $894.6 million for the year ended March 31, 2006 compared to $711.1 million for the year ended March 31, 2005, primarily due to higher retail revenues, increased generation output, reduced net cash collateral requirements and the net impact of the timing of cash collection and payments, partially offset by increases in income tax payments and higher fuel inventory levels.

Net cash provided by operating activities decreased $120.8 million to $711.1 million for the year ended March 31, 2005 compared to $831.9 million for the year ended March 31, 2004, due primarily to increases in net cash collateral requirements; increases in the level of funding for pension and other postretirement benefit plans; higher inventory levels; and the net impact of the timing of cash collection and payments.

Investing Activities

Net cash used in investing activities increased $177.4 million to $1,024.1 million for the year ended March 31, 2006, primarily due to higher capital expenditures during the year ended March 31, 2006 compared to the prior year. Capital expenditures totaled $1,049.0 million for the year ended March 31, 2006, compared to $851.6 million for the year ended March 31, 2005. The increase was primarily due to $109.7 million of increased expenditures on the construction of the Lake Side Power Plant, increases in various capital projects related to transmission and distribution and other thermal and hydroelectric facilities and $58.5 million for the installation of emission control equipment at the Huntington Power Plant, partially offset by $113.9 million of decreases in expenditures for the Currant Creek Plant. Expenditures for the Lake Side Power Plant will continue to be capitalized as construction work-in-progress until the plant is placed into service, which is expected to occur by May 2007. The Currant Creek Power Plant was completed in simple and combined-cycle phases. The simple-cycle phase was placed into service during May and June 2005 and combined-cycle phase was placed into service during March 2006.

Net cash used in investing activities increased $143.2 million to $846.7 million for the year ended March 31, 2005, primarily due to higher capital expenditures during the year ended March 31, 2005 compared to the prior year. Capital expenditures totaled $851.6 million for the year ended March 31, 2005, compared to $690.4 million for the year ended March 31, 2004. The increase was primarily due to $158.9 million of increased expenditures on the construction of the Currant Creek Power Plant and $49.6 million for construction of the Lake Side Power Plant, partially offset by lower expenditures on the distribution and transmission upgrades along the Wasatch Front in Utah, as well as reductions in other capital expenditures.

Financing Activities

Short-Term Debt

PacifiCorp's short-term debt decreased by $284.4 million during the year ended March 31, 2006 to $184.4 million, primarily due to proceeds from long-term debt and common stock financing during the period, partially offset by capital expenditures in excess of net cash from operations. Regulatory authorities limit PacifiCorp to $1.5 billion of short-term debt, of which $184.4 million was outstanding at March 31, 2006, with a weighted-average interest rate of 4.8%.

PacifiCorp's short-term debt increased by $343.9 million during the year ended March 31, 2005 to $468.8 million, primarily due to capital expenditures in excess of net cash from operations and pre-funding of maturing long-term debt, partially offset by the proceeds from the long-term debt financing during the period. Short-term debt increased by $99.9 million during the year ended March 31, 2004, primarily due to changes in working capital, maturing long-term debt, increased capital expenditures and the resumption of paying dividends on common shares.

Revolving Credit Agreement

PacifiCorp's short-term borrowings and certain other financing arrangements are supported by an $800.0 million committed bank revolving credit agreement, which was amended during August 2005. Changes included an increase to 65.0% in the covenant not to exceed a specified debt-to-capitalization percentage, extension of the termination date to August 2010 and exclusion of the acquisition of PacifiCorp by MEHC as an event of default under the agreement. The interest rate on advances under this facility is generally based on the London Interbank Offered Rate (LIBOR) plus a margin that varies based on PacifiCorp's credit ratings. As of March 31, 2006, this facility was fully available and there were no borrowings outstanding. In addition to this committed credit facility, at March 31, 2006, PacifiCorp had $79.6 million in money market accounts included in Cash and cash equivalents available to meet its liquidity needs.

PacifiCorp's revolving credit agreement contains customary covenants and default provisions, which PacifiCorp monitors on a regular basis. As of March 31, 2006, PacifiCorp was in compliance with the covenants of its revolving credit agreement, which also apply to its letters of credit. See "Future Uses of Cash - Contractual Obligations and Commercial Commitments - Commercial Commitments" below for information regarding PacifiCorp's letters of credit.

Long-Term Debt

During the year ended March 31, 2006, PacifiCorp made scheduled long-term debt repayments of $269.7 million.

In June 2005, PacifiCorp issued $300.0 million of its 5.25% Series of First Mortgage Bonds due June 15, 2035. PacifiCorp used the proceeds for the reduction of short-term debt, including the short-term debt used in December 2004 to redeem its 8.625% Series of First Mortgage Bonds due December 13, 2024 totaling $20.0 million.

During the year ended March 31, 2005, PacifiCorp made scheduled long-term debt repayments of $239.8 million. Additionally, during December 2004, PacifiCorp redeemed, prior to maturity, all of the 8.625% First Mortgage Bonds due December 13, 2024 totaling $20.0 million.

In March 2005, the maturity dates for three series of variable-rate pollution-control revenue bonds totaling $38.1 million were extended to December 1, 2020.

In August 2004, PacifiCorp issued $200.0 million of its 4.95% Series of First Mortgage Bonds due August 15, 2014 and $200.0 million of its 5.90% Series of First Mortgage Bonds due August 15, 2034. PacifiCorp used the proceeds for general corporate purposes, including the reduction of short-term debt.

For the year ended March 31, 2004, PacifiCorp made scheduled long-term debt repayments of $136.6 million. Additionally, during July and August 2003, PacifiCorp redeemed, prior to maturity, First Mortgage Bonds totaling $57.5 million and Preferred Securities totaling $352.0 million. These retirements were funded initially with short-term debt. In September 2003, PacifiCorp issued $200.0 million of its 4.30% First Mortgage Bonds due September 15, 2008 and $200.0 million of its 5.45% First Mortgage Bonds due September 15, 2013.

PacifiCorp's Mortgage and Deed of Trust creates a lien on most of PacifiCorp's electric utility property, allowing the issuance of bonds based on:

- A percentage of utility property additions;
- Bond credits arising from retirement of previously outstanding bonds; and/or
- Deposits of cash.

The amount of bonds that PacifiCorp may issue generally is also subject to a net earnings test. As of March 31, 2006, PacifiCorp estimated it would be able to issue up to $4.7 billion of new First Mortgage Bonds under the most restrictive issuance test in the mortgage. Any issuances would be subject to market conditions and amounts may be further limited by regulatory authorizations or commitments or by covenants and tests contained in other financing agreements. PacifiCorp also has the ability to release property from the lien of the Mortgage on the basis of property additions, bond credits and/or deposits of cash. See also "Limitations" below.

During September 2005, the SEC declared effective PacifiCorp's shelf registration statement covering $700.0 million of future first mortgage bond and unsecured debt issuances. PacifiCorp has not yet issued any of the securities covered by this registration statement.

PacifiCorp has state regulatory authority to issue up to an additional $700.0 million of long-term debt from the UPSC, OPUC and IPUC and up to $100.0 million of first mortgage bonds from the WUTC. An additional filing will be made with the WUTC prior to any future issuances.

Common Stock

During the year ended March 31, 2006, PacifiCorp issued 44,884,826 shares of its common stock to PHI, its former parent company, at a total price of $484.7 million. PacifiCorp used the proceeds from the sale of these shares for the reduction of short-term debt.

PacifiCorp expects to seek amendments to existing state regulatory authority or new authorizations that would permit the issuance of its common stock to PPW Holdings LLC.

Preferred Stock Redemptions

PacifiCorp redeemed $7.5 million of Preferred stock subject to mandatory and optional redemption during each of the years ended March 31, 2006, 2005 and 2004.

Dividends

During the year ended March 31, 2006, PacifiCorp had the following dividend activity:

- $175.0 million declared and paid on common stock;
- $5.6 million declared on preferred stock and preferred stock subject to mandatory redemption, of which $3.5 million was recorded as interest expense; and
- $5.8 million paid on preferred stock and preferred stock subject to mandatory redemption.

On March 20, 2006, immediately prior to the closing of PacifiCorp's sale to MEHC, PacifiCorp paid a dividend on common stock, at that time held by PHI, in the aggregate amount of $16.8 million. The dividend was reduced pursuant to Amendment No. 1 to the Stock Purchase Agreement among MEHC, ScottishPower and PHI executed on the date of the transaction's closing from the $56.6 million aggregate amount originally declared by the PacifiCorp Board of Directors on January 27, 2006.

During the year ended March 31, 2005, PacifiCorp had the following dividend activity:

- $193.3 million declared and paid on common stock;
- $6.1 million declared on preferred stock and preferred stock subject to mandatory redemption, of which $4.0 million was recorded as interest expense; and
- $6.2 million paid on preferred stock and preferred stock subject to mandatory redemption.

During the year ended March 31, 2004, PacifiCorp had the following dividend activity:

- $160.6 million declared and paid on common stock;
- $6.7 million declared on preferred stock and preferred stock subject to mandatory redemption, of which $3.4 million was recorded as interest expense; and
- $6.8 million paid on preferred stock and preferred stock subject to mandatory redemption.

Capitalization

(Millions of dollars)	March 31,			
	2006		2005	
Short-term debt	$ 184.4	2.2%	$ 468.8	6.0%
Long-term debt, including current maturities	3,937.9	47.9	3,898.9	50.0
Preferred stock subject to mandatory redemption	45.0	0.5	52.5	0.7
Preferred stock	41.3	0.5	41.3	0.5
Common equity	4,010.5	48.9	3,335.8	42.8
Total capitalization	$ 8,219.1	100.0%	$ 7,797.3	100.0%

PacifiCorp manages its capitalization and liquidity position with a key objective of retaining existing credit ratings, which is expected to facilitate continuing access to flexible borrowing arrangements at favorable costs and rates. This objective, subject to periodic review and revision, attempts to balance the interests of all shareholders, ratepayers and creditors and to provide a competitive cost of capital and predictable capital market access.

As a result of recent changes in accounting standards, such as FIN 46R, *Consolidation of Variable-Interest Entities, an interpretation of Accounting Research Bulletin No. 51*, and EITF No. 01-08, *Determining Whether an Arrangement Is a Lease*, it is possible that new purchase power and gas agreements, transmission arrangements or amendments to existing arrangements may be accounted for as capital lease obligations or debt on PacifiCorp's financial statements. While PacifiCorp has successfully amended covenants in financing arrangements that may be impacted by these changes, it may be more difficult for PacifiCorp to comply with its capitalization targets or regulatory commitments concerning minimum levels of common equity as a percentage of capitalization. This may lead PacifiCorp to seek amendments or waivers from regulators, delay or reduce dividends or spending programs, seek additional new common equity contributions from its immediate parent, PPW Holdings LLC, or take other actions.

Limitations

In addition to PacifiCorp's capital structure objectives, its debt capacity is also governed by its contractual and regulatory commitments.

PacifiCorp's credit agreement contains customary covenants and default provisions, including a covenant not to exceed a specified debt-to-capitalization ratio of 65.0%. As of March 31, 2006, management believes that PacifiCorp could have borrowed an additional $3.3 billion without exceeding this threshold. Any additional borrowings would be subject to market conditions, and amounts may be further limited by regulatory authorizations or by covenants and tests contained in other financing agreements.

The state regulatory orders that authorized the acquisition by MEHC contain restrictions on PacifiCorp's ability to pay common dividends to the extent that they would reduce PacifiCorp's common stock equity below specified percentages of defined capitalization.

As of March 31, 2006, the most restrictive of these commitments prohibits PacifiCorp from making any distribution to PPW Holdings LLC or MEHC without prior state regulatory approval to the extent that it would reduce PacifiCorp's common stock equity below 48.25% of its total capitalization, excluding short-term debt and current maturities of long-term debt. After December 31, 2008, this minimum level of common equity declines annually to 44.0% after December 31, 2011. The terms of this commitment treat 50.0% of PacifiCorp's preferred stock outstanding prior to the acquisition of PacifiCorp by MEHC as common equity. As of March 31, 2006, PacifiCorp's actual common stock equity percentage, as calculated under this measure, exceeded the minimum threshold.

FUTURE USES OF CASH

Dividends

PacifiCorp does not presently anticipate that it will declare dividends on common stock during the 12 months ending March 31, 2007.

Capital Expenditure Program

Actual capital expenditures were $1,049.0 million for the year ended March 31, 2006 and $851.6 million for the year ended March 31, 2005. Estimated capital expenditures for the 12 months ending March 31, 2007 are expected to be approximately $1.1 billion, which include $129.2 million for emissions control equipment to address current and anticipated air quality regulations, $137.9 million for generation development projects, and $875.1 million for ongoing operational projects.

In conjunction with state regulatory approvals of the PacifiCorp acquisition, MEHC and PacifiCorp committed to invest $812.0 million in capital spending for emission control equipment to address current and future air quality initiatives implemented by the EPA or by the states in which PacifiCorp operates facilities. Additional capital expenditures for emission reduction projects may be required, depending on the outcome of pending or new air quality regulations. The actual and estimated expenditures for emissions control equipment include amounts for installation of equipment at the Huntington Power Plant. The actual expenditures for the Huntington Power Plant were $59.6 million for the year ended March 31, 2006. The estimated expenditures for the 12 months ending March 31, 2007 are $68.7 million.

In March 2006, PacifiCorp completed construction of the Currant Creek Power Plant, a 523.0-MW combined-cycle plant in Utah. Total project costs incurred through March 31, 2006 were approximately $338.0 million. The estimates provided above for generation development projects include the remaining costs to have the Lake Side Power Plant constructed, as well as upgrades of other generation plant equipment. As of March 31, 2006, $208.9 million of the $347.0 million expected total cost for the Lake Side Power Plant had been incurred.

PacifiCorp is focused on infrastructure improvement projects in targeted areas to improve customer service and network safety and enhance system reliability and performance. PacifiCorp and MEHC have committed to a number of transmission and distribution system investments in connection with regulatory approval of PacifiCorp's sale to MEHC. Approximately $519.5 million in investments in PacifiCorp's transmission and distribution system are expected over the next several years, of which $13.9 million are currently estimated to be incurred during the 12 months ending March 31, 2007.

All of these expenditures are subject to continuing review and revision by PacifiCorp, and actual costs could vary from estimates due to various factors, such as changes in business conditions, revised load-growth estimates, future legislative and regulatory developments, increasing costs in labor, equipment and materials, competition in the industry for similar technology and management's strategies for achieving compliance with regulations. The estimates of capital expenditures for the 12 months ending March 31, 2007 generally excludes the potential impact on generation and transmission capacity of future decisions arising from further stages of PacifiCorp's various Integrated Resource Plans. Additional expenditures may be significant but are spread over a number of years and cannot be accurately estimated at this time. Based on future decisions arising from the Integrated Resource Plan process, including wind generation projects, the estimate of capital expenditures may be revised.

In funding its capital expenditure program, PacifiCorp expects to obtain funds required for construction and other purposes from sources similar to those used in the past, including operating cash flows, the issuance of new long-term and short-term debt and equity contributions from MEHC.

Contractual Obligations and Commercial Commitments

Contractual Obligations

The table below shows PacifiCorp's contractual obligations as of March 31, 2006.

(Millions of dollars)	Payments due during the 12 months ending March 31,				
	2007	2008-2009	2010-2011	Thereafter	Total
Long-term debt, including interest:					
Fixed-rate obligations	$ 429.8	$ 911.7	$ 479.9	$ 4,223.0	$ 6,044.4
Variable-rate obligations (a)	17.4	34.8	34.8	690.9	777.9
Short-term debt, including interest	185.0	—	—	—	185.0
Preferred stock subject to mandatory redemption	3.7	41.3	—	—	45.0
Capital leases, including interest	4.8	9.6	9.9	63.8	88.1
Operating leases (b)	15.0	18.2	4.2	8.8	46.2
Asset retirement obligations (c)	7.0	34.0	35.8	356.7	433.5
Power purchase agreements: (d)					
Electricity commodity contracts	603.2	380.5	211.4	667.2	1,862.3
Electricity capacity contracts	136.9	299.6	310.4	1,301.1	2,048.0
Electricity mixed contracts	16.2	30.7	26.8	178.4	252.1
Transmission	45.7	77.2	72.1	503.3	698.3
Fuel purchase agreements: (d)					
Natural gas supply and transporation	317.4	678.8	433.8	869.3	2,299.3
Coal supply and transportation	199.4	444.2	358.7	1,062.2	2,064.5
Purchase obligations (e)	123.2	42.0	2.2	3.1	170.5
Owned hydroelectric commitments (f)	28.8	71.7	66.7	469.9	637.1
Other long-term liabilities (g)	5.0	6.0	2.3	7.3	20.6
Total contractual cash obligations	$ 2,138.5	$ 3,080.3	$ 2,049.0	$ 10,405.0	$ 17,672.8

(a) Consists of principal and interest for pollution-control revenue bond obligations with interest rates scheduled to reset within the next 12 months. Future variable interest rates are set at March 31, 2006 rates. See "Item 7A. Interest Rate Risk" for additional discussion related to variable-rate liabilities.

(b) Excluded from these amounts are power purchase agreements that meet the definition of an operating lease. Such amounts are included with power purchase agreements.

(c) Represents expected cash payments adjusted for inflation for estimated costs to perform legally required asset retirement activities.

(d) Commodity contracts are agreements for the delivery of energy. Capacity contracts are agreements that provide rights to the energy output of a specified facility. Forecasted or other applicable estimated prices were used to determine total dollar value of the commitments for purposes of the table. Amounts included in power purchase agreements include those agreements that meet the definition of an operating lease.

(e) Includes minimum commitments for maintenance, outsourcing of certain services, contracts for software, telephone, data and consulting or advisory services. Also includes contractual obligations for engineering, procurement and construction costs on the Lake Side Power Plant and Huntington Power Plant emission control equipment.

The purchase obligation amounts consist of items for which PacifiCorp is contractually obligated to purchase from a third party as of March 31, 2006. These amounts only constitute the known portion of PacifiCorp's expected future expenses; therefore, the amounts presented in the table will not provide a reliable indicator of PacifiCorp's expected future cash outflows on a stand-alone basis. For purposes of identifying and accumulating purchase obligations, PacifiCorp has included all contracts meeting the definition of a purchase obligation (e.g., legally binding and specifying all significant terms, including fixed or minimum amount or quantity to be purchased and the approximate timing of the transaction). For those contracts involving a fixed or minimum quantity but variable pricing, PacifiCorp has estimated the contractual obligation based on its best estimate of pricing that will be in effect at the time the

obligation is incurred.

(f) PacifiCorp has entered into settlement agreements with various interested parties to resolve issues necessary to obtain new hydroelectric licenses from the FERC. These settlement agreements generally include clauses that allow for termination of certain of PacifiCorp's obligations if the FERC license order is not consistent with the settlement agreement. The table only includes contractual obligations made in settlement agreements that are not contingent upon the FERC license being consistent with the settlement agreement and obligations that are required by the FERC licenses. Hydroelectric licenses have varying expiration dates, and several expire within the next five years. The contractual obligations included in the table expire with the license expiration dates. However, PacifiCorp plans to acquire new licenses that will allow for continued operation for more than 30 years and expects contractual obligations to continue or increase.

(g) Includes environmental commitments recorded on the balance sheet that are contractually or legally binding. Excludes regulatory liabilities and employee benefit plan obligations that are not legally or contractually fixed as to timing and amount. Deferred income taxes are also excluded since cash payments are based primarily on taxable income for each discrete year.

Commercial Commitments

At March 31, 2006, PacifiCorp had $517.8 million of standby letters of credit and standby bond purchase agreements available to provide credit enhancement and liquidity support for variable-rate pollution-control revenue bond obligations. In addition, PacifiCorp had approximately $40.5 million of standby letters of credit to provide credit support for certain transactions as requested by third parties. These committed bank arrangements were all fully available as of March 31, 2006 and expire periodically through the 12 months ending March 31, 2011.

PacifiCorp's standby letters of credit and standby bond purchase agreements generally contain similar covenants to those contained in PacifiCorp's revolving credit agreement. See "Financing Activities – Revolving Credit Agreement" for further information. However, the maximum debt-to-capitalization ratio for one of these arrangements was 60.0% as of March 31, 2006 and was amended in May 2006 to now permit a maximum ratio of 65.0%. PacifiCorp monitors these covenants on a regular basis and at March 31, 2006, was in compliance with the covenants of these agreements.

PacifiCorp's commercial commitments include surety bonds that provide indemnities for PacifiCorp in relation to various commitments it has to third parties for obligations in the event of default on behalf of PacifiCorp. The majority of these bonds are continuous in nature and renew annually. Based on current contractual commitments, PacifiCorp's level of surety bonding beyond the year ended March 31, 2006, is estimated to be approximately $27.3 million. This estimate is based on current information and actual amounts may vary due to rate changes or changes to the general operations of PacifiCorp.

CREDIT RATINGS

PacifiCorp's credit ratings at March 31, 2006, were as follows:

	Moody's	Standard & Poor's
Issuer/Corporate	Baa1	A-
Senior secured debt	A3	A-
Senior unsecured debt	Baa1	BBB+
Preferred stock	Baa3	BBB
Commercial paper	P-2	A-1
Outlook	Stable	Stable

In February 2006, Moody's Investors Service affirmed the issuer and securities ratings of PacifiCorp and changed the ratings outlook to stable from developing. In March 2006, Standard & Poor's Rating Services affirmed the corporate credit ratings and securities ratings of PacifiCorp and changed the ratings outlook to stable from CreditWatch with negative implications. Also in March 2006, Standard & Poor's Rating Services raised the short-term rating for PacifiCorp to A-1 from A-2.

PacifiCorp has no rating-downgrade triggers that would accelerate the maturity dates of its debt. A change in ratings is not an event of default, nor is the maintenance of a specific minimum level of credit rating a condition to drawing upon PacifiCorp's credit agreement. However, interest rates on loans under the revolving credit agreement and

commitment fees are tied to credit ratings and would increase or decrease when ratings are changed. A ratings downgrade may reduce the accessibility and increase the cost of PacifiCorp's commercial paper program, its principal source of short-term borrowing, and may result in the requirement that PacifiCorp post collateral under certain of PacifiCorp's power purchase and other agreements. Certain authorizations or exemptions by regulatory commissions for the issuance of securities are valid as long as PacifiCorp maintains investment-grade ratings on senior secured debt. A downgrade below that level would necessitate new regulatory applications and approvals.

In conjunction with its risk management activities, PacifiCorp must meet credit quality standards as required by counterparties. In accordance with industry practice, contractual agreements that govern PacifiCorp's energy management activities either specifically provide bilateral rights to demand cash or other security if credit exposures on a net basis exceed certain ratings-dependent threshold levels or provide the right for counterparties to demand "adequate assurances" in the event of a material adverse change in PacifiCorp's creditworthiness. If one or more of PacifiCorp's credit ratings decline below investment grade, PacifiCorp would be required to post cash collateral, letters of credit or other similar credit support to facilitate ongoing wholesale energy management activities. As of March 31, 2006, PacifiCorp's credit ratings from Standard & Poor's and Moody's were investment grade; however, if the ratings fell more than one rating below investment grade, PacifiCorp's estimated potential collateral requirements totaled approximately $334.0 million. PacifiCorp's potential collateral requirements could fluctuate considerably due to seasonality, market prices and their volatility, a loss of key PacifiCorp generating facilities or other related factors.

OFF-BALANCE SHEET ARRANGEMENTS

PacifiCorp from time to time enters into arrangements in the normal course of business to facilitate commercial transactions with third parties that involve guarantee, indemnification or similar arrangements. PacifiCorp currently has indemnification obligations for breaches of warranties or covenants in connection with the sale of certain assets. In addition, PacifiCorp evaluates potential obligations that arise out of variable interests in unconsolidated entities, determined in accordance with the FASB Interpretation No. 46, *Consolidation of Variable-Interest Entities, an interpretation of Accounting Research Bulletin No. 51*. PacifiCorp believes that the likelihood that it would be required to perform or otherwise incur any significant losses associated with any of these obligations is remote. See "Item 8. Financial Statements and Supplementary Data – Note 11 – Guarantees and Other Commitments" and "Note 13 – Consolidation of Variable-Interest Entities" for more information on these obligations and arrangements.

INFLATION

PacifiCorp is subject to rate-of-return regulation and the impact of inflation on the level of cost recovery under regulation varies by state depending upon the type of test-period convention used in the state. In PacifiCorp's state jurisdictions, a 12-month period of historical costs is typically used as the basis for developing a "test year," which may also include various adjustments to eliminate abnormal or one time events, normalize cost levels, or escalate the historical costs to a future level when the new rates will actually be in effect. To the extent that the levels of costs beyond the historical 12-month period can be established either through known adjustments or through the escalation of cost levels in establishing prices, PacifiCorp can mitigate the impacts of inflationary pressures. The majority of PacifiCorp's retail customer prices are established using forecasts. These forecasts may include, but are not limited to, projected rate base levels and expenses, which are adjusted for both inflation and known and measurable changes. They may also include projected revenue and power cost changes related to load growth.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

PacifiCorp participates in a wholesale energy market that includes public utility companies, electricity and natural gas marketers, financial institutions, industrial companies and government entities. A variety of products exist in this market, ranging from electricity and natural gas purchases and sales for physical delivery to financial instruments such as futures, swaps, options and other complex derivatives. Transactions may be conducted directly with customers and suppliers, through brokers, or with an exchange that serves as a central clearing mechanism.

PacifiCorp is subject to the various risks inherent in the energy business, including credit risk, interest rate risk and commodity price risk.

Risk Management

PacifiCorp has a risk management committee that is responsible for the oversight of market and credit risk relating to the commodity transactions of PacifiCorp. To limit PacifiCorp's exposure to market and credit risk, the risk management committee sets policies and limits and approves commodity strategies, which are reviewed frequently to respond to changing market conditions.

Risk is an inherent part of PacifiCorp's business and activities. The risk management process established by PacifiCorp is designed to identify, assess, monitor, report, manage and mitigate each of the various types of risk involved in its business and activities and to measure quantitative market risk exposure and identify qualitative market risk exposure in its businesses. To assist in managing the volatility relating to these exposures, PacifiCorp enters into various transactions, including derivative transactions, consistent with PacifiCorp's risk management policy and procedures. The risk management policy governs energy transactions and is designed for hedging PacifiCorp's existing energy and asset exposures, and to a limited extent, the policy permits arbitrage activities to take advantage of market inefficiencies. The policy and procedures also govern PacifiCorp's use of derivative instruments for commodity derivative transactions, as well as its energy purchase and sales practices, and describe PacifiCorp's credit policy and management information systems required to effectively monitor such derivative use. PacifiCorp's risk management policy provides for the use of only those instruments that have a similar volume or price relationship to its portfolio of assets, liabilities or anticipated transactions, thereby ensuring that such instruments will be primarily used for hedging. PacifiCorp's portfolio of energy derivatives is substantially used for non-trading purposes.

PacifiCorp continues to actively manage its exposure to commodity price volatility. These activities may include adding to the generation portfolio and entering into transactions that help to shape PacifiCorp's system resource portfolio, including wholesale contracts and financially settled temperature-related derivative instruments that reduce volume and price risk due to weather extremes.

Credit Risk

Credit risk relates to the risk of loss that might occur as a result of non-performance by counterparties of their contractual obligations to make or take delivery of electricity, natural gas or other commodities and to make financial settlements of these obligations. Credit risk may be concentrated to the extent that one or more groups of counterparties have similar economic, industry or other characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in market or other conditions. In addition, credit risk includes not only the risk that a counterparty may default due to circumstances relating directly to it, but also the risk that a counterparty may default due to circumstances involving other market participants that have a direct or indirect relationship with such counterparty.

PacifiCorp seeks to mitigate credit risk (and concentrations of credit risk) by applying specific eligibility criteria to prospective counterparties. However, despite mitigation efforts, defaults by counterparties occur from time to time. PacifiCorp continues to actively monitor the creditworthiness of counterparties with whom it transacts and uses a variety of risk mitigation techniques to limit its exposure as it believes appropriate. When PacifiCorp considers a new asset purchase, transaction or contractual arrangement, market liquidity and the ability to optimize the investment are main considerations. To mitigate exposure to the financial risks of wholesale counterparties, PacifiCorp has entered into netting and collateral arrangements that include margining and cross-product netting agreements and obtaining third-party guarantees, letters of credit and cash deposits. Counterparties may be assessed interest fees for delayed receipts. If required, PacifiCorp exercises rights under these arrangements, including calling on the counterparty's credit support arrangement.

The following table represents PacifiCorp's March 31, 2006 distribution of unsecured credit exposure, net of collateral, within its electricity and natural gas portfolio of purchase and sale contracts and takes into account contractual netting rights.

Distribution of Credit Exposure	% of Total
Investment grade - Externally rated	81.6%
Non-investment grade - Externally rated	0.1
Investment grade - Internally rated	0.2
Non-investment grade - Internally rated	18.1
	100.0%

"Externally rated" represents enterprise relationships that have published ratings from at least one major credit rating agency. "Internally rated" represents those relationships that have no rating by a major credit rating agency. For those relationships, PacifiCorp utilizes internally developed, commercially appropriate rating methodologies and credit scoring models to develop a public rating equivalent.

The "Non-investment grade – Internally rated" component of PacifiCorp's overall credit exposure reflects the market value of a small number of contracts that support PacifiCorp's Integrated Resource Plan and Oregon's electric energy restructuring legislation as it relates to renewable energy projects, as well as compliance with FERC regulations requiring utilities to purchase power from qualifying facilities.

Interest Rate Risk

PacifiCorp is exposed to risk resulting from changes in interest rates as a result of its issuance of variable-rate debt and commercial paper. PacifiCorp manages its interest rate exposure by maintaining a blend of fixed-rate and variable-rate debt and by monitoring the effects of market changes in interest rates. Changing interest rates will affect interest paid on variable-rate debt and interest earned by PacifiCorp's pension plan assets, mining reclamation trust funds and cash balances. PacifiCorp's principal sources of variable-rate debt are commercial paper and pollution-control revenue bonds remarketed on a periodic basis. Commercial paper is periodically refinanced with fixed-rate debt when needed and when interest rates are considered favorable. PacifiCorp may also enter into financial derivative instruments, including interest rate swaps, swaptions and United States Treasury lock agreements, to manage and mitigate interest rate exposure. PacifiCorp does not anticipate using financial derivatives as the principal means of managing interest rate exposure. PacifiCorp's weighted-average cost of debt is recoverable in rates. Increases or decreases in interest rates are reflected in PacifiCorp's cost of debt calculation as rate cases are filed. Any adverse change to PacifiCorp's credit rating could negatively impact PacifiCorp's ability to borrow and the interest rates that are charged.

As of March 31, 2006, PacifiCorp had fixed-rate long-term liabilities of $3,405.4 million in aggregate principal amount and having a fair value of $3,597.1 million. These instruments have fixed interest rates and therefore do not expose PacifiCorp to the risk of earnings loss due to changes in market interest rates. However, the fair value of these instruments would decrease by approximately $114.3 million if interest rates were to increase by 10.0% from their levels at March 31, 2006. In general, such a decrease in fair value would impact earnings and cash flows only if PacifiCorp were to reacquire all or a portion of these instruments prior to their maturity.

As of March 31, 2006, PacifiCorp had $726.1 million of variable-rate liabilities and $113.6 million of temporary cash investments compared to $1,010.5 million of variable-rate liabilities and $182.2 million of temporary cash investments at March 31, 2005. At March 31, 2006 and 2005, PacifiCorp had no financial derivatives in effect relating to interest rate exposure.

Based on a sensitivity analysis as of March 31, 2006, for a one-year horizon, PacifiCorp estimates that if market interest rates average 1.0% higher (lower) during the 12 months ending March 31, 2007 than during the year ended March 31, 2006, interest expense, net of offsetting impacts on interest income, would increase (decrease) by $6.1 million. Comparatively, based on a sensitivity analysis as of March 31, 2005, for a one-year horizon, had interest rates averaged 1.0% higher (lower) during the year ended March 31, 2006 than during the year ended March 31, 2005, PacifiCorp estimated that interest expense, net of offsetting impacts in interest income, would have increased (decreased) by $8.3 million. These amounts include the effect of invested cash and were determined by considering the impact of the hypothetical interest rates on the variable-rate securities outstanding as of March 31, 2006 and 2005. The decrease in interest rate sensitivity is primarily due to the decrease in outstanding variable-rate

commercial paper, partially offset by the decrease in invested cash. If interest rates change significantly, PacifiCorp might take actions to manage its exposure to the change. However, due to the uncertainty of the specific actions that might be taken and their possible effects, the sensitivity analysis assumes no changes in PacifiCorp's financial structure.

Commodity Price Risk

PacifiCorp's exposure to market risk due to commodity price change is primarily related to its fuel and electricity commodities, which are subject to fluctuations due to unpredictable factors, such as weather, electricity demand and plant performance, that affect energy supply and demand. PacifiCorp's energy purchase and sales activities are governed by PacifiCorp's risk management policy and the risk levels established as part of that policy.

PacifiCorp's energy commodity price exposure arises primarily from its electric supply obligation in the western United States. PacifiCorp manages this risk principally through the operation of its generation plants with a net capability of 8,470.4 MW, as well as transmission rights held both on some of its own 15,580-mile transmission system and on third-party transmission systems, and through its wholesale energy purchase and sales activities. Wholesale contracts are utilized primarily to balance PacifiCorp's physical excess or shortage of net electricity for future time periods. Financially settled contracts are utilized to further mitigate commodity price risk. PacifiCorp may from time to time enter into other financially settled, temperature-related derivative instruments that reduce volume and price risk on days with weather extremes. In addition, a financially settled hydroelectric streamflow hedge is in place through September 2006 to reduce volume and price risks associated with PacifiCorp's hydroelectric generation resources.

PacifiCorp measures the market risk in its electricity and natural gas portfolio daily, utilizing a historical Value-at-Risk ("VaR") approach and other measurements of net position. PacifiCorp also monitors its portfolio exposure to market risk in comparison to established thresholds and measures its open positions subject to price risk in terms of quantity at each delivery location for each forward time period.

VaR computations for the electricity and natural gas commodity portfolio are based on a historical simulation technique, utilizing historical price changes over a specified (holding) period to simulate potential forward energy market price curve movements to estimate the potential unfavorable impact of such price changes on the portfolio positions scheduled to settle within the following 24 months. The quantification of market risk using VaR provides a consistent measure of risk across PacifiCorp's continually changing portfolio. VaR represents an estimate of possible changes at a given level of confidence in fair value that would be measured on its portfolio assuming hypothetical movements in future market rates and is not necessarily indicative of actual results that may occur.

PacifiCorp's VaR computations for its electricity and natural gas commodity portfolio utilize several key assumptions, including a 99.0% confidence level for the resultant price changes and a holding period of five business days. The calculation includes short-term derivative commodity instruments held for risk mitigation and balancing purposes, the expected resource and demand obligations from PacifiCorp's long-term contracts, the expected generation levels from PacifiCorp's generation assets and the expected retail and wholesale load levels. The portfolio reflects flexibility contained in contracts and assets, which accommodate the normal variability in PacifiCorp's demand obligations and generation availability. These contracts and assets are valued to reflect the variability PacifiCorp experiences as a load-serving entity. Contracts or assets that contain flexible elements are often referred to as having embedded options or option characteristics. These options provide for energy volume changes that are sensitive to market price changes. Therefore, changes in the option values affect the energy position of the portfolio with respect to market prices, and this effect is calculated daily. When measuring portfolio exposure through VaR, these position changes that result from the option sensitivity are held constant through the historical simulation to avoid understating VaR.

As of March 31, 2006, PacifiCorp's estimated potential five-day unfavorable impact on fair value of the electricity and natural gas commodity portfolio over the next 24 months was $22.4 million, as measured by the VaR computations described above, compared to $15.5 million as of March 31, 2005. The minimum, average and maximum daily VaR (five-day holding periods) for the years ended March 31, 2006 and 2005 are as follows:

(Millions of dollars)	2006	2005
Minimum VaR (measured)	$ 6.7	$ 10.6
Average VaR (calculated)	16.9	16.6
Maximum VaR (measured)	46.2	26.3

PacifiCorp maintained compliance with its VaR limit procedures during the year ended March 31, 2006. Changes in markets inconsistent with historical trends or assumptions used could cause actual results to exceed predicted limits.

Fair Value of Derivatives

The following table shows the changes in the fair value of energy-related contracts subject to the requirements of SFAS No. 133 from April 1, 2005, to March 31, 2006 and quantifies the reasons for the changes.

(Millions of dollars)	Net Asset (Liability)		Regulatory Net Asset (Liability) (b)
	Trading	Non-trading	
Fair value of contracts outstanding at March 31, 2005	$ 0.2	$ (154.4)	$ 170.0
Contracts realized or otherwise settled during the period	(0.2)	(115.8)	128.3
Other changes in fair values (a)	0.2	277.9	(203.6)
Fair value of contracts outstanding at March 31, 2006	$ 0.2	$ 7.7	$ 94.7

(a) Other changes in fair values include the effects of changes in market prices, inflation rates and interest rates, including those based on models, on new and existing contracts.

(b) Net unrealized losses (gains) related to derivative contracts included in rates are recorded as a regulatory net asset (liability).

The fair value of derivative instruments is determined using forward price curves. Forward price curves represent PacifiCorp's estimates of the prices at which a buyer or seller could contract today for delivery or settlement of a commodity at future dates. PacifiCorp bases its forward price curves upon market price quotations when available and internally developed and commercial models with internal and external fundamental data inputs when market quotations are unavailable. In general, PacifiCorp estimates the fair value of a contract by calculating the present value of the difference between the prices in the contract and the applicable forward price curve. Price quotations for certain major electricity trading hubs are generally readily obtainable for the first six years, and therefore PacifiCorp's forward price curves for those locations and periods reflect observable market quotes. However, in the later years or for locations that are not actively traded, PacifiCorp must develop forward price curves. For short-term contracts at less actively traded locations, prices are modeled based on observed historical price relationships with actively traded locations. For long-term contracts extending beyond six years, the forward price curve is based upon the use of a fundamentals model (cost-to-build approach) due to the limited information available. Factors used in the fundamentals model include the forward prices for the commodities used as fuel to generate electricity, the expected system heat rate (which measures the efficiency of electricity plants in converting fuel to electricity) in the region where the purchase or sale takes place and a fundamental forecast of expected spot prices based on modeled supply and demand in the region. The assumptions in these models are critical since any changes to the assumptions could have a significant impact on the fair value of the contract. Contracts with explicit or embedded optionality are valued by separating each contract into its physical and financial forward and option components. Forward components are valued against the appropriate forward price curve. The optionality is valued using a modified Black-Scholes model or a stochastic simulation (Monte Carlo) approach. Each option component is modeled and valued separately using the appropriate forward price curve.

PacifiCorp's valuation models and assumptions are continuously updated to reflect current market information, and evaluations and refinements of model assumptions are performed on a periodic basis.

The following table shows summarized information with respect to valuation techniques and contractual maturities of PacifiCorp's energy-related contracts qualifying as derivatives under SFAS No. 133 as of March 31, 2006.

(Millions of dollars)	Fair Value of Contracts at Period-End				
	Maturity Less Than 1 Year	Maturity 1-3 Years	Maturity 4-5 Years	Maturity in Excess of 5 Years	Total Fair Value
Trading:					
Values based on quoted market prices from third-party sources	$ 0.2	$ —	$ —	$ —	$ 0.2
Non-trading:					
Values based on quoted market prices from third-party sources	$ 58.7	$ 49.7	$ 6.0	$ 1.2	$ 115.6
Values based on models and other valuation methods	64.9	82.9	4.9	(260.6)	(107.9)
Total non-trading	$ 123.6	$ 132.6	$ 10.9	$ (259.4)	$ 7.7
Regulatory net asset (liability)	$ (76.2)	$ (83.4)	$ (5.5)	$ 259.8	$ 94.7

Standardized derivative contracts that are valued using market quotations are classified as "values based on quoted market prices from third-party sources." All remaining contracts, which include non-standard contracts and contracts for which market prices are not routinely quoted, are classified as "values based on models and other valuation methods." Both classifications utilize market curves as appropriate for the first six years.

PacifiCorp currently has a non-exchange traded streamflow weather derivative contract to reduce PacifiCorp's exposure to variability in weather conditions that affect hydroelectric generation. Under the agreement, PacifiCorp pays an annual premium in return for the right to make or receive payments if streamflow levels are above or below certain thresholds. PacifiCorp estimates and records an asset or liability corresponding to the total expected future cash flow under the contract in accordance with EITF No. 99-2, *Accounting for Weather Derivatives*. The net asset (liability) recorded for this contract was $(2.1) million at March 31, 2006 and $20.3 million at March 31, 2005. PacifiCorp recognized a loss of $15.6 million for the year ended March 31, 2006; a gain of $27.9 million for the year ended March 31, 2005; and a gain of $0.4 million for the year ended March 31, 2004.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Index to Consolidated Financial Statements:

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of PacifiCorp:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, common shareholder's equity and cash flows present fairly, in all material respects, the financial position of PacifiCorp and its subsidiaries at March 31, 2006 and 2005, and the results of their operations and their cash flows for each of the three years in the period ended March 31, 2006, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 3 to the consolidated financial statements, PacifiCorp and its subsidiaries changed the manner in which they apply the normal purchases and normal sales exception to derivative contracts entered into or modified after June 30, 2003, upon their adoption of SFAS No. 149, *Amendment of Statement 133 on Derivative Instruments and Hedging Activities*, as of July 1, 2003.

As discussed in Note 6 to the consolidated financial statements, PacifiCorp and its subsidiaries changed the manner in which they account for asset retirement obligations upon adoption of SFAS No. 143, *Accounting for Asset Retirement Obligations*, as of April 1, 2003.

PricewaterhouseCoopers LLP
Portland, Oregon
May 26, 2006

PACIFICORP AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

(Millions of dollars)	Years Ended March 31,		
	2006	2005	2004
Revenues	$3,896.7	$3,048.8	$3,194.5
Operating expenses:			
Energy costs	1,545.1	948.0	1,156.7
Operations and maintenance	1,014.5	913.1	895.8
Depreciation and amortization	448.3	436.9	428.8
Taxes, other than income taxes	96.8	94.4	95.3
Total	3,104.7	2,392.4	2,576.6
Income from operations	792.0	656.4	617.9
Interest expense and other (income) expense:			
Interest expense	279.9	267.4	256.5
Interest income	(9.5)	(9.1)	(13.8)
Interest capitalized	(32.4)	(14.8)	(19.9)
Minority interest and other	(6.1)	(7.3)	1.6
Total	231.9	236.2	224.4
Income from operations before income tax expense and cumulative effect of accounting change	560.1	420.2	393.5
Income tax expense	199.4	168.5	144.5
Income before cumulative effect of accounting change	360.7	251.7	249.0
Cumulative effect of accounting change (less applicable income tax benefit of $(0.6)/2004	—	—	(0.9)
Net income	360.7	251.7	248.1
Preferred dividend requirement	(2.1)	(2.1)	(3.3)
Earnings on common stock	$ 358.6	$ 249.6	$ 244.8

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

PACIFICORP AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

(Millions of dollars)	March 31,	
ASSETS	2006	2005
Current assets:		
Cash and cash equivalents	$ 119.6	$ 199.3
Accounts receivable less allowance for doubtful accounts of $11.4/2006 and $11.6/2005	266.8	293.0
Unbilled revenue	148.2	143.8
Amounts due from affiliates - ScottishPower	—	36.5
Inventories at average costs:		
Materials and supplies	131.2	114.7
Fuel	80.9	58.5
Current derivative contract asset	221.7	252.7
Other	46.9	115.8
Total current assets	1,015.3	1,214.3
Property, plant and equipment:		
Generation	5,686.3	5,238.7
Transmission	2,591.8	2,507.7
Distribution	4,502.8	4,308.7
Intangible plant	659.0	607.0
Other	1,662.5	1,596.9
Total operating assets	15,102.4	14,259.0
Accumulated depreciation and amortization	(5,611.5)	(5,361.8)
Net operating assets	9,490.9	8,897.2
Construction work-in-progress	618.3	593.4
Total property, plant and equipment, net	10,109.2	9,490.6
Other assets:		
Regulatory assets	884.3	972.8
Derivative contract regulatory asset	94.7	170.0
Non-current derivative contract asset	345.3	360.3
Deferred charges and other	282.5	312.9
Total other assets	1,606.8	1,816.0
Total assets	$12,731.3	$12,520.9

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

PACIFICORP AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS, continued

(Millions of dollars)

	March 31,	
LIABILITIES AND SHAREHOLDERS' EQUITY	2006	2005
Current liabilities:		
Accounts payable	$ 361.3	$ 350.4
Amounts due to affiliates - MidAmerican	3.8	—
Amounts due to affiliates - ScottishPower	—	3.9
Accrued employee expenses	118.0	134.3
Taxes payable	47.0	39.8
Interest payable	63.0	64.8
Current derivative contract liability	97.9	136.7
Current deferred tax liability	16.9	2.0
Long-term debt and capital lease obligations, currently maturing	216.9	269.9
Preferred stock subject to mandatory redemption, currently maturing	3.7	3.7
Notes payable and commercial paper	184.4	468.8
Other	103.2	123.4
Total current liabilities	1,216.1	1,597.7
Deferred credits:		
Deferred income taxes	1,621.2	1,629.0
Investment tax credits	67.6	75.6
Regulatory liabilities	804.7	806.0
Non-current derivative contract liability	461.2	630.5
Pension and other post employment liabilities	385.0	422.4
Other	361.4	304.8
Total deferred credits	3,701.1	3,868.3
Long-term debt and capital lease obligations, net of current maturities	3,721.0	3,629.0
Preferred stock subject to mandatory redemption, net of current maturities	41.3	48.8
Total liabilities	8,679.5	9,143.8
Commitments, contingencies and guarantees (See Notes 10 and 11)		
Shareholders' equity:		
Preferred stock	41.3	41.3
Common equity:		
Common shareholder's capital	3,381.9	2,894.1
Retained earnings	630.0	446.4
Accumulated other comprehensive income (loss):		
Unrealized gain on available-for-sale securities, net of tax of $1.7/2006 and $2.6/2005	2.7	4.3
Minimum pension liability, net of tax of $(2.5)/2006 and $(5.5)/2005	(4.1)	(9.0)
Total common equity	4,010.5	3,335.8

Total shareholders' equity	4,051.8	3,377.1
Total liabilities and shareholders' equity	$12,731.3	$12,520.9

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

PACIFICORP AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

(Millions of dollars)	Years Ended March 31,		
	2006	2005	2004
Cash flows from operating activities:			
Net income	$ 360.7	$ 251.7	$ 248.1
Adjustments to reconcile net income to net cash provided by operating activities:			
Cumulative effect of accounting change, net of tax	—	—	0.9
Unrealized gain on derivative contracts, net	(86.8)	(8.4)	(6.1)
Depreciation and amortization	448.3	436.9	428.8
Deferred income taxes and investment tax credits, net	13.9	120.0	80.5
Regulatory asset/liability establishment and amortization	51.6	66.7	111.1
Other	50.0	(27.0)	(6.5)
Changes in:			
Accounts receivable, prepayments and other current assets	71.1	(137.8)	(1.7)
Inventories	(38.9)	(16.2)	14.1
Amounts due to/from affiliates - MidAmerican, net	3.6	—	—
Amounts due to/from affiliates - ScottishPower, net	32.6	(32.8)	(36.8)
Accounts payable and accrued liabilities	(13.4)	84.1	(3.3)
Other	1.9	(26.1)	2.8
Net cash provided by operating activities	894.6	711.1	831.9
Cash flows from investing activities:			
Capital expenditures	(1,049.0)	(851.6)	(690.4)
Proceeds from sales of assets	1.3	7.1	3.3
Proceeds from available-for-sale securities	123.4	49.1	95.8
Purchases of available-for-sale securities	(84.9)	(44.7)	(89.4)
Other	(14.9)	(6.6)	(22.8)
Net cash used in investing activities	(1,024.1)	(846.7)	(703.5)
Cash flows from financing activities:			
Changes in short-term debt	(284.4)	343.9	99.9
Proceeds from long-term debt, net of issuance costs	296.0	395.2	396.7
Proceeds from issuance of common stock to PHI	484.7	—	—
Dividends paid	(177.1)	(195.4)	(165.1)
Repayments and redemptions of long-term debt	(269.7)	(259.8)	(194.1)
Repayment of preferred securities	—	—	(352.0)
Redemptions of preferred stock	(7.5)	(7.5)	(7.5)
Other	7.8	—	(0.3)
Net cash provided by (used in) financing activities	49.8	276.4	(222.4)
Change in cash and cash equivalents	(79.7)	140.8	(94.0)
Cash and cash equivalents at beginning of period	199.3	58.5	152.5
Cash and cash equivalents at end of period	$ 119.6	$ 199.3	$ 58.5

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

PACIFICORP AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN COMMON SHAREHOLDER'S EQUITY

(Millions of dollars, thousands of shares)	Common Shareholder's Capital		Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Comprehensive Income (Loss)
	Shares	Amounts			
Balance at March 31, 2003	312,176	$ 2,892.1	$ 305.9	$ (3.6)	
Comprehensive income					
Net income	—	—	248.1	—	$ 248.1
Other comprehensive income (loss):					
Unrealized gain on available-for-sale securities, net of tax of $3.8	—	—	—	6.2	6.2
Minimum pension liability, net of tax of $(3.8)	—	—	—	(6.1)	(6.1)
Cash dividends declared:					
Preferred stock	—	—	(3.3)	—	
Common stock ($0.51 per share)	—	—	(160.6)	—	—
Balance at March 31, 2004	312,176	2,892.1	390.1	(3.5)	$ 248.2
Comprehensive income					
Net income	—	—	251.7	—	$ 251.7
Other comprehensive loss:					
Unrealized loss on available-for-sale securities, net of tax of $(0.1)	—	—	—	(0.2)	(0.2)
Minimum pension liability, net of tax of $(0.6)	—	—	—	(1.0)	(1.0)
Stock-based compensation expense	—	2.0	—	—	—
Cash dividends declared:					
Preferred stock	—	—	(2.1)	—	—
Common stock ($0.62 per share)	—	—	(193.3)	—	—
Balance at March 31, 2005	312,176	2,894.1	446.4	(4.7)	$ 250.5
Comprehensive income					
Net income	—	—	360.7	—	$ 360.7
Other comprehensive income (loss):					
Unrealized loss on available-for-sale securities, net of tax of $(0.9)	—	—	—	(1.6)	(1.6)
Minimum pension liability, net of tax of $3.0	—	—	—	4.9	4.9
Common stock issuance	44,885	484.7	—	—	—
Tax benefit from stock option exercises	—	7.5	—	—	—
Separation of employee benefit plans	—	(3.5)	—	—	—
Other	—	(0.9)	—	—	—
Cash dividends declared:					
Preferred stock	—	—	(2.1)	—	—
Common stock ($0.53 per share)	—	—	(175.0)	—	—
Balance at March 31, 2006	357,061	$ 3,381.9	$ 630.0	$ (1.4)	$ 364.0

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

PACIFICORP AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 1 - Summary of Significant Accounting Policies

On March 21, 2006, MidAmerican Energy Holdings Company ("MEHC") completed its purchase of all of PacifiCorp's outstanding common stock from PacifiCorp Holdings, Inc. ("PHI"), a subsidiary of Scottish Power plc ("ScottishPower"), pursuant to the Stock Purchase Agreement among MEHC, ScottishPower and PHI dated May 23, 2005, as amended on March 21, 2006. The cash purchase price was $5.1 billion. PacifiCorp's common stock was directly acquired by a subsidiary of MEHC, PPW Holdings LLC. As a result of this transaction, MEHC controls the significant majority of PacifiCorp's voting securities, which includes both common and preferred stock. MEHC, a global energy company based in Des Moines, Iowa, is a majority-owned subsidiary of Berkshire Hathaway Inc.

Nature of operations - PacifiCorp (which includes PacifiCorp and its subsidiaries) is a United States electricity company serving retail customers in portions of the states of Utah, Oregon, Wyoming, Washington, Idaho and California. PacifiCorp generates electricity and also engages in electricity sales and purchases on a wholesale basis. The subsidiaries of PacifiCorp support its electric utility operations by providing coal mining and other fuel-related services, as well as environmental remediation.

As a result of a settlement agreement between MEHC, the Utah Committee of Consumer Services and Utah Industrial Energy Consumers, MEHC contributed to PacifiCorp, at no cost, MEHC's indirect 100.0% ownership interest in Intermountain Geothermal Company, which controls 69.3% of the steam rights associated with the geothermal field serving PacifiCorp's Blundell Geothermal Plant in Utah. Intermountain Geothermal Company therefore became a wholly owned subsidiary of PacifiCorp in March 2006, subsequent to the sale of PacifiCorp to MEHC.

Basis of presentation - The Consolidated Financial Statements of PacifiCorp include its integrated electric utility operations and its wholly owned and majority-owned subsidiaries. Intercompany transactions and balances have been eliminated upon consolidation.

Regulation - Accounting for the electric utility business conforms to accounting principles generally accepted in the United States as applied to regulated public utilities and as prescribed by agencies and the commissions of the various locations in which the electric utility business operates. PacifiCorp prepares its financial statements in accordance with Statement of Financial Accounting Standards ("SFAS") No. 71, *Accounting for the Effects of Certain Types of Regulation* ("SFAS No. 71") as further discussed in Note 2 – Accounting for the Effects of Regulation.

Use of estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, expenses and disclosure of contingent assets and liabilities at the date of the financial statements. These estimates involve judgments with respect to numerous factors that are difficult to predict and are beyond management's control. As a result, actual results could differ materially from these estimates.

Reclassifications - Certain reclassifications of prior years' amounts have been made to conform to the fiscal 2006 method of presentation. These reclassifications had no effect on previously reported consolidated net income.

Cash and cash equivalents - For the purposes of these financial statements, PacifiCorp considers all liquid investments with maturities of three months or less, at the time of acquisition, to be cash equivalents.

Accounts receivable and allowance for doubtful accounts - Accounts receivable includes billed retail and wholesale services plus any accrued and unpaid interest. Credit is granted to customers, which include retail and wholesale customers, government agencies and other utilities. Management performs continuing credit evaluations of customers' financial conditions, and although PacifiCorp does not require collateral, deposits may be required from customers in certain circumstances. Accounts receivable are considered delinquent based on regulations provided by each state, which is generally if payment is not received by the date due, typically 30 days after the invoice date. PacifiCorp charges interest on delinquent customer accounts or past due balances in the states where PacifiCorp does business based on the respective regulation of each state, and this interest varies between 1.0% to 1.7% per month.

Management reviews accounts receivable on a monthly basis to determine if any receivable will potentially be uncollectible. The allowance for doubtful accounts includes amounts estimated through an evaluation of specific accounts, primarily for wholesale accounts receivable, and a reserve for retail accounts receivable based on historical experience. After all attempts to collect a receivable have failed or, if later, by six months from when a customer becomes inactive, the receivable is written-off against the allowance. Management believes that the allowance for doubtful accounts as of March 31, 2006 was adequate. However, actual write-offs could exceed the recorded allowance. The allowance activity was as follows:

	Years Ended March 31,		
(Millions of dollars)	2006	2005	2004
Beginning balance	$ 11.6	$ 23.3	$ 31.1
Charged to costs and expenses, net (a)	9.2	5.0	5.2
Write-offs, net (b)	(9.4)	(16.7)	(13.0)
Ending balance	$ 11.4	$ 11.6	$ 23.3

(a) Includes amounts charged to expense for adjustments to the allowance for doubtful accounts, net of recoveries of wholesale accounts receivable.

(b) Includes write-offs of retail and wholesale accounts receivable, net of recoveries of retail accounts receivable.

Inventories - Inventories are valued at the lower of average cost or market.

Property, plant and equipment - Property, plant and equipment are originally recorded at the cost of contracted services, direct labor and materials, interest capitalized during construction and indirect charges for engineering, supervision and similar overhead items. The cost of depreciable electric utility properties retired, less salvage value, is charged to accumulated depreciation. The cost of removal is charged against the regulatory liability established through depreciation rates. Annual overhaul costs for the replacement of defined retirement units are capitalized. Generally other costs of overhaul activities and other repairs and maintenance are expensed as they are incurred.

Intangible plant consists primarily of computer software costs that are originally recorded at cost. Accumulated amortization on Intangible plant was $329.8 million at March 31, 2006 and $307.6 million at March 31, 2005. Amortization expense on Intangible plant was $45.5 million for the year ended March 31, 2006 and $48.5 million for the year ended March 31, 2005. The estimated aggregate amortization on Intangible plant for the next five succeeding 12 month periods ending from March 31, 2007 to March 31, 2011 is $45.4 million, $38.9 million, $31.0 million, $24.7 million and $21.8 million. Unamortized computer software costs were $186.7 million at March 31, 2006 and $185.1 million at March 31, 2005.

Depreciation and amortization - The average depreciable lives of Property, plant and equipment currently in use by category are as follows:

Generation	
Steam plant	20 – 43 years
Hydroelectric plant	14 – 85 years
Other plant	15 – 35 years
Transmission	20 – 70 years
Distribution	44 – 50 years
Intangible plant	5 – 50 years
Other	5 – 30 years

Computer software costs included in Intangible plant are initially assigned a depreciable life of 5 to 10 years.

During the year ended March 31, 2005, PacifiCorp changed the estimated average lives of certain computer software systems to reflect operational plans. This change reduced amortization expense by $12.9 million annually on existing computer software systems, with an annual impact to net income of approximately $8.0 million.

Depreciation and amortization are computed by the straight-line method either over the life prescribed by PacifiCorp's various regulatory jurisdictions for regulated assets or over the assets' estimated useful lives.

Composite depreciation rates of average depreciable assets on utility Property, plant and equipment (excluding amortization of capital leases) were 3.0% for each of the years ended March 31, 2006, 2005 and 2004.

Asset impairments - Long-lived assets to be held and used by PacifiCorp are reviewed for impairment when events or circumstances indicate costs may not be recoverable. Such reviews are performed in accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* ("SFAS No. 144"). The impacts of regulation on cash flows are considered when determining impairment. Impairment losses on long-lived assets are recognized when book values exceed expected undiscounted future cash flows with the impairment measured on a discounted future cash flows basis.

Allowance for funds used during construction - The allowance for funds used during construction (the "AFUDC") represents the cost of debt and may also include equity funds used to finance utility property additions during construction. As prescribed by regulatory authorities, the AFUDC is capitalized as a part of the cost of utility property and is recorded in the Consolidated Statements of Income as Interest capitalized. Under regulatory rate practices, PacifiCorp is generally permitted to recover the AFUDC, and a fair return thereon, through its rate base after the related utility property is placed in service.

The composite capitalization rates were 6.5% for the year ended March 31, 2006; 4.5% for the year ended March 31, 2005; and 7.9% for the year ended March 31, 2004. PacifiCorp's AFUDC rates do not exceed the maximum allowable rates determined by regulatory authorities.

Derivatives - In accordance with SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, ("SFAS No. 133"), as amended by SFAS No. 138, *Accounting for Certain Derivative Instruments and Certain Hedging Activities*, and SFAS No. 149, *Amendment of Statement 133 on Derivative Instruments and Hedging Activities* ("SFAS No. 149") (collectively "SFAS No. 133"), derivative instruments are measured at fair value and recognized as either assets or liabilities on the Consolidated Balance Sheets, unless they qualify for the exemptions afforded by the standard. Changes in the fair value of derivatives are recognized in earnings during the period of change. Certain long-term derivative contracts have been approved by regulatory authorities for recovery through retail rates. Accordingly, changes in fair value of these contracts are deferred as regulatory assets or liabilities pursuant to SFAS No. 71. Derivative contracts for commodities used in PacifiCorp's normal business operation and that settle by physical delivery, among other criteria, are eligible for the normal purchases and normal sales exemption afforded by SFAS No. 133. These contracts are accounted for under accrual accounting and recorded in Revenues or Energy costs in the Consolidated Statements of Income when the contracts settle.

Marketable securities - PacifiCorp accounts for marketable securities, included in Deferred charges and other on PacifiCorp's Consolidated Balance Sheets, in accordance with SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities.* PacifiCorp determines the appropriate classification of all marketable securities as held-to-maturity, available-for-sale or trading at the time of purchase and re-evaluates such classification as of each balance sheet date. As shown in Note 5 – Marketable Securities, at March 31, 2006 and 2005, all of PacifiCorp's investments in marketable securities were classified as available-for-sale and were reported at fair value. PacifiCorp uses the specific identification method in computing realized gains and losses on the sale of its available-for-sale securities. Realized gains and losses are included in Other (income) expense. Unrealized gains and losses are reported as a component of Accumulated other comprehensive income (loss). Investments that are in loss positions as of the end of each reporting period are analyzed to determine whether they have experienced a decline in market value that is considered other-than-temporary. An investment will generally be written down to market value if it has a significant unrealized loss for more than nine months. If additional information is available that indicates an investment is other-than-temporarily impaired, it will be written down prior to the nine-month time period. If an investment has been impaired for more than nine months but available information indicates that the impairment is temporary, the investment will not be written down.

Amounts held in trust – PacifiCorp holds certain trusts to fund decommissioning and reclamation activities as described in Note 5 – Marketable Securities and Note 6 – Asset Retirement Obligations and Accrued Environmental Costs. Amounts are also held in trusts that serve as funding vehicles for certain of PacifiCorp's employee benefits, including the Supplemental Executive Retirement Plan (the "SERP") as described in Note 17 – Employee Benefits.

Asset retirement obligations and accrued removal costs - Effective April 1, 2003, PacifiCorp recognizes the fair value of legal obligations associated with the retirement or removal of long-lived assets at the time the obligations

are incurred and can be reasonably estimated in accordance with SFAS No. 143, *Accounting for Asset Retirement Obligations* ("SFAS No. 143"). The initial recognition of this liability is accompanied by a corresponding increase in Property, plant and equipment. Subsequent to the initial recognition, the liability is adjusted for any revisions to the expected value of the retirement obligation (with corresponding adjustments to Property, plant and equipment) and for accretion of the liability due to the passage of time. Additional depreciation expense is recorded prospectively for any Property, plant and equipment increases. In general, depreciation and accretion expense generated by SFAS No. 143 accounting is recorded as a regulatory asset or liability because such amounts are recoverable in rates. As of March 31, 2006, PacifiCorp adopted Financial Accounting Standards Board (the "FASB") Interpretation No. 47, *Accounting for Conditional Asset Retirement Obligations – an Interpretation of FASB Statement No. 143* ("FIN 47") as described in Note 6 – Asset Retirement Obligations and Accrued Environmental Costs.

For those asset retirement removal costs that do not meet the requirements of SFAS No. 143, PacifiCorp recovers through approved depreciation rates estimated removal costs and accumulates such amounts in Asset retirement removal costs within Regulatory liabilities as described in Note 2 – Accounting for the Effects of Regulation.

Income taxes - PacifiCorp uses the liability method of accounting for deferred income taxes. Deferred tax liabilities and assets reflect the expected future tax consequences, based on enacted tax law, of temporary differences between the tax bases of assets and liabilities and their financial reporting amounts.

Prior to the sale of PacifiCorp to MEHC on March 21, 2006, PacifiCorp was a wholly owned subsidiary of PHI. Therefore, it was included in the consolidated income tax return for PHI from April 1, 2003 through March 21, 2006. PacifiCorp currently is an indirect, majority-owned subsidiary of Berkshire Hathaway Inc. and is included in its consolidated income tax return. PacifiCorp's provision for income taxes has been computed on the basis that it files separate consolidated income tax returns with its subsidiaries.

Historically, PacifiCorp did not recognize deferred taxes on many of the timing differences between book and tax depreciation. In prior years, these benefits were flowed through to the utility customer as prescribed by PacifiCorp's various regulatory jurisdictions. Deferred income tax liabilities and Regulatory assets have been established for those flow-through tax benefits as shown in Note 2 – Accounting for the Effects of Regulation since PacifiCorp is allowed to recover the increased income tax expense when these differences reverse.

Investment tax credits are deferred and amortized to income over periods prescribed by PacifiCorp's various regulatory jurisdictions.

PacifiCorp establishes accruals for certain tax contingencies when, despite the belief that its tax return positions are supported, it also believes that certain positions may be challenged and that it is probable those positions may not be fully sustained. PacifiCorp is under continuous examination by the Internal Revenue Service and other tax authorities and accounts for potential losses of tax benefits in accordance with SFAS No. 5, *Accounting for Contingencies* ("SFAS No. 5"). See Note 19 – Income Taxes for further information.

Stock-based compensation - As permitted by SFAS No. 123, *Accounting for Stock-Based Compensation* ("SFAS No. 123"), PacifiCorp accounts for its stock-based compensation arrangements, primarily employee stock options, under the intrinsic value recognition and measurement principles of Accounting Principles Board ("APB") Opinion No. 25, *Accounting for Stock Issued to Employees* ("APB No. 25"), and related interpretations in accounting for employee stock options issued to PacifiCorp employees. Under APB No. 25, because the exercise price of employee stock options equals the market price of the underlying stock on the date of grant, no compensation expense is recorded if the ultimate number of shares to be awarded is known at the date of the grant. All options currently accounted for under APB No. 25 were issued in ScottishPower American Depository Shares, as discussed in Note 18 – Stock-Based Compensation. Had PacifiCorp determined compensation cost based on the fair value at the grant date for all stock options vesting in each period under SFAS No. 123, PacifiCorp's Net income would have been reduced to the pro forma amounts below:

(Millions of dollars)	Years Ended March 31,		
	2006	2005	2004
Net income as reported	$ 360.7	$ 251.7	$ 248.1
Add: stock-based compensation included in reported net income, net of related tax effects	0.1	3.1	—
Less: stock-based compensation expense using the fair value method, net of related tax effects	(1.4)	(4.3)	(1.1)
Pro forma net income	$ 359.4	$ 250.5	$ 247.0

Revenue recognition - Revenue is recognized upon delivery for retail and wholesale electricity sales. Electricity sales to retail customers are determined based on meter readings taken throughout the month. PacifiCorp accrues an estimate of unbilled revenues, which are earned but not yet billed, net of estimated line losses, each month for electric service provided after the meter reading date to the end of the month. The process of calculating the Unbilled revenue estimate consists of three components: quantifying PacifiCorp's total electricity delivered during the month, assigning Unbilled revenues to customer type and valuing the unbilled energy. Factors involved in the estimation of consumption and line losses relate to weather conditions, amount of natural light, historical trends, economic impacts and customer type. Valuation of unbilled energy is based on estimating the average price for the month for each customer type. The amount accrued for Unbilled revenues was $148.2 million at March 31, 2006 and $143.8 million at March 31, 2005.

Segment information - PacifiCorp currently has one segment, which includes the regulated retail and wholesale electric operations.

New accounting standards -
SFAS No. 123R

On April 1, 2006, PacifiCorp adopted SFAS No. 123R, *Share-Based Payment* ("SFAS No. 123R"), a revision of the originally issued SFAS No. 123. SFAS No. 123R establishes standards for the accounting for transactions in which an entity exchanges its equity instruments for goods or services. SFAS No. 123R requires that the cost resulting from all share-based payment transactions be recognized in the financial statements using the fair value method. The intrinsic value method of accounting established by APB No. 25 will no longer be allowed. The adoption of SFAS No. 123R did not have an effect on PacifiCorp's financial position or results of operations as all requisite service has been rendered by employees and the outstanding stock awards are fully vested. For further information see Note 18 – Stock-Based Compensation.

EITF No. 04-6

On April 1, 2006, PacifiCorp adopted Emerging Issues Task Force No. 04-6, *Accounting for Stripping Costs Incurred during Production in the Mining Industry* ("EITF No. 04-6"). EITF No. 04-6 requires that stripping costs incurred during the production phase of a mine are variable production costs that should be included in the costs of the inventory produced (that is, extracted) during the period that the stripping costs are incurred. The adoption of EITF No. 04-6 did not have a material impact on PacifiCorp's consolidated financial position or results of operations.

Note 2 - Accounting for the Effects of Regulation

Regulated utilities have historically applied the provisions of SFAS No. 71, which is based on the premise that regulators will set rates that allow for the recovery of a utility's costs, including cost of capital. Accounting under SFAS No. 71 is appropriate as long as (i) rates are established by or subject to approval by independent, third-party regulators, (ii) rates are designed to recover the specific enterprise's cost of service, and (iii) in view of demand for service, it is reasonable to assume that rates are set at levels that will recover costs and can be collected from customers.

SFAS No. 71 provides that regulatory assets may be capitalized if it is probable that future revenue in an amount at least equal to the capitalized costs will result from their treatment as allowable costs for rate-making purposes. In addition, the rate action should permit recovery of the specific previously incurred costs rather than provide for expected levels of similar future costs. PacifiCorp records regulatory assets and liabilities based on management's

assessment that it is probable that a cost will be recovered (asset) or that an obligation has been incurred (liability). The final outcome, or additional regulatory actions, could change management's assessment in future periods. A regulator can provide current rates intended to recover costs that are expected to be incurred in the future, with the understanding that if those costs are not incurred, future rates will be reduced by corresponding amounts. If current rates are intended to recover such costs, PacifiCorp recognizes amounts charged pursuant to such rates as liabilities and takes those amounts to income only when the associated costs are incurred. In applying SFAS No. 71, PacifiCorp must give consideration to changes in the level of demand or competition during the cost recovery period. In accordance with SFAS No. 71, PacifiCorp capitalizes certain costs as regulatory assets if authorized to recover the costs in future periods.

PacifiCorp continuously evaluates the appropriateness of applying SFAS No. 71 to each of its jurisdictions. At March 31, 2006, PacifiCorp had recorded specifically identified net regulatory assets of $174.3 million. In the event PacifiCorp stopped applying SFAS No. 71 at March 31, 2006, an after-tax loss of approximately $108.2 million would be recognized.

PacifiCorp is subject to the jurisdiction of public utility regulatory authorities of each of the states in which it conducts retail electric operations with respect to prices, services, accounting, issuance of securities and other matters. The jurisdictions in which PacifiCorp operates are in various stages of evaluating deregulation. At present, PacifiCorp is subject to cost-based rate-making for its business. PacifiCorp is a "licensee" and a "public utility" as those terms are used in the Federal Power Act and is, therefore, subject to regulation by the Federal Energy Regulatory Commission (the "FERC") as to accounting policies and practices, certain prices and other matters.

Regulatory assets include the following:

(Millions of dollars)	March 31,	
	2006 (a)	2005 (a)
Deferred income taxes (b)	$ 480.3	$ 499.9
Minimum pension liability (c)	257.7	280.7
Unamortized issuance expense on retired debt	29.0	34.6
Demand-side resource costs	13.4	25.5
Transition plan - retirement and severance	16.9	24.9
Various other costs	87.0	107.2
Subtotal	884.3	972.8
Derivative contracts (d)	94.7	170.0
Total	$ 979.0	$ 1,142.8

(a) PacifiCorp had regulatory assets not accruing carrying charges of $952.9 million at March 31, 2006 and $1,095.6 million at March 31, 2005.

(b) Represents accelerated income tax benefits previously passed on to ratepayers that will be included in rates concurrently with recognition of the associated income tax expense.

(c) Represents minimum pension liability offsets proportionate to the amount of pension costs that are recoverable in rates. Remaining minimum pension liability offsets are included net of tax in Accumulated other comprehensive income (loss).

(d) Represents net unrealized losses related to derivative contracts included in rates. See Note 3 – Derivative Instruments for further information.

Regulatory liabilities include the following:

(Millions of dollars)	March 31, 2006	March 31, 2005
Asset retirement removal costs (a)	$ 699.8	$ 692.1
Deferred income taxes	43.7	44.4
Bonneville Power Administration Regional Exchange Program	23.3	12.6
Various other costs	37.9	56.9
Total	$ 804.7	$ 806.0

(a) Represents removal costs recovered in rates.

PacifiCorp evaluates the recovery of all regulatory assets periodically and as events occur. The evaluation includes the probability of recovery, as well as changes in the regulatory environment. Regulatory and/or legislative action in Utah, Oregon, Wyoming, Washington, Idaho and California may require PacifiCorp to record regulatory asset write-offs and charges for impairment of long-lived assets in future periods. Impairment would be measured in accordance with PacifiCorp's asset impairment policy, as discussed in Note 1 – Summary of Significant Accounting Policies.

Note 3 - Derivative Instruments

In accordance with SFAS No. 133, PacifiCorp records derivative instruments on the Consolidated Balance Sheets as assets or liabilities measured at estimated fair value, unless they qualify for the exemptions afforded by the standard. PacifiCorp uses derivative instruments (primarily forward purchases and sales) to manage the commodity price risk inherent in its fuel and electricity obligations, as well as to optimize the value of power generation assets and related contracts.

In July 2003, the EITF issued EITF No. 03-11, *Reporting Realized Gains and Losses on Derivative Instruments That Are Subject to FASB Statement No. 133 and Not "Held for Trading Purposes" as defined in Issue No. 02-3* ("EITF No. 03-11"), which provides guidance on whether to report realized gains or losses on physically settled derivative contracts not held for trading purposes on a gross or net basis and requires realized gains or losses on derivative contracts that do not settle physically to be reported on a net basis. The adoption of EITF No. 03-11 during the year ended March 31, 2004 resulted in PacifiCorp netting certain contracts that were previously recorded on a gross basis in Wholesale sales and other revenues and Energy costs in the Consolidated Statements of Income. The adoption of EITF No. 03-11 had no impact on PacifiCorp's consolidated Net income and all periods presented are consistent with the requirements of EITF 03-11.

As the FASB continues to issue interpretations, PacifiCorp may change the conclusions that it has reached and, as a result, the accounting treatment and financial statement impact could change in the future.

The accounting treatment for the various classifications of derivative financial instruments is as follows:

Normal purchases and normal sales - The contracts that qualify as normal purchases and normal sales are excluded from the requirements of SFAS No. 133. The realized gains and losses on these contracts are reflected in the Consolidated Statements of Income at the contract settlement date.

Undesignated - Unrealized gains and losses on derivative contracts held for trading purposes are presented on a net basis in the Consolidated Statements of Income as Revenues. Unrealized gains and losses on derivative contracts not held for trading purposes are presented in the Consolidated Statements of Income as Revenues for sales contracts and as Energy costs and Operations and maintenance expense for purchase contracts and financial swaps.

PacifiCorp has the following types of commodity transactions:

Wholesale electricity purchase and sales contracts - PacifiCorp makes continuing projections of future retail and wholesale loads and future resource availability to meet these loads based on a number of criteria, including

historical load and forward market and other economic information and experience. Based on these projections, PacifiCorp purchases and sells electricity on a forward yearly, quarterly, monthly, daily and hourly basis to match actual resources to actual energy requirements and sells any surplus at the prevailing market price. This process involves hedging transactions, which include the purchase and sale of firm energy under long-term contracts, forward physical contracts or financial contracts for the purchase and sale of a specified amount of energy at a specified price over a given period of time.

Natural gas and other fuel purchase contracts - PacifiCorp manages its natural gas supply requirements by entering into forward commitments for physical delivery of natural gas. PacifiCorp also manages its exposure to increases in natural gas supply costs through forward commitments for the purchase of physical natural gas at fixed prices and financial swap contracts that settle in cash based on the difference between a fixed price that PacifiCorp pays and a floating market-based price that PacifiCorp receives.

Where PacifiCorp's derivative instruments are subject to a master netting agreement and the criteria of FIN 39, *Offsetting of Amounts Related to Certain Contracts- An Interpretation of APB Opinion No. 10 and FASB Statement No. 105*, are met, PacifiCorp presents its derivative assets and liabilities, as well as accompanying receivables and payables, on a net basis in the accompanying Consolidated Balance Sheets.

Unrealized gains and losses on energy sales and purchase contracts are affected by fluctuations in forward prices for electricity and natural gas. The following table summarizes the amount of the pre-tax unrealized gains and losses included within the Consolidated Statements of Income associated with changes in the fair value of PacifiCorp's derivative contracts that are not included in rates.

(Millions of dollars)	Years Ended March 31,		
	2006	2005	2004
Revenues	$ 224.4	$ (330.0)	$ (29.4)
Operating expenses:			
Energy costs	(131.1)	338.4	35.5
Operations and maintenance	(6.5)	—	—
Total unrealized gain on derivative contracts	$ 86.8	$ 8.4	$ 6.1

The following table shows the changes in the fair value of energy-related contracts subject to the requirements of SFAS No. 133, as amended, from April 1, 2005 to March 31, 2006.

(Millions of dollars)	Net Asset (Liability)		Regulatory Net Asset (Liability) (b)
	Trading	Non-trading	
Fair value of contracts outstanding at March 31, 2005	$ 0.2	$ (154.4)	$ 170.0
Contracts realized or otherwise settled during the period	(0.2)	(115.8)	128.3
Other changes in fair values (a)	0.2	277.9	(203.6)
Fair value of contracts outstanding at March 31, 2006	$ 0.2	$ 7.7	$ 94.7

(a) Other changes in fair values include the effects of changes in market prices, inflation rates and interest rates, including those based on models, on new and existing contracts.

(b) Net unrealized losses (gains) related to derivative contracts included in rates are recorded as a regulatory net asset (liability).

PacifiCorp bases its forward price curves upon market price quotations when available and bases them on internally developed and commercial models, with internal and external fundamental data inputs, when market quotations are unavailable. Market quotes are obtained from independent energy brokers, as well as direct information received from third-

party offers and actual transactions executed by PacifiCorp. Price quotations for certain major electricity

trading hubs are generally readily obtainable for the first six years and therefore PacifiCorp's forward price curves for those locations and periods reflect observable market quotes. However, in the later years or for locations that are not actively traded, forward price curves must be developed. For short-term contracts at less actively traded locations, prices are modeled based on observed historical price relationships with actively traded locations. For long-term contracts extending beyond six years, the forward price curve (beyond the first six years) is based upon the use of a fundamentals model (cost-to-build approach) due to the limited information available. The fundamentals model is updated as warranted, at least quarterly, to reflect changes in the market such as long-term natural gas prices and expected inflation rates.

Short-term contracts, without explicit or embedded optionality, are valued based upon the relevant portion of the forward price curve. Contracts with explicit or embedded optionality are valued by separating each contract into its physical and financial forward, swap and option components. Forward and swap components are valued against the appropriate forward price curve. The optionality is valued using a modified Black-Scholes model approach or a stochastic simulation (Monte Carlo) approach. Each option component is modeled and valued separately using the appropriate forward price curve.

Standardized derivative contracts that are valued using market quotations, as described above, are classified in the table below as "values based on quoted market prices from third-party sources." All remaining contracts, which include non-standard contracts and contracts for which market prices are not routinely quoted, are classified as "values based on models and other valuation methods."

(Millions of dollars)	Fair Value of Contracts at Period-End				
	Maturity Less Than 1 Year	Maturity 1-3 Years	Maturity 4-5 Years	Maturity in Excess of 5 Years	Total Fair Value
Trading:					
Values based on quoted market prices from third-party sources	$ 0.2	$ —	$ —	$ —	$ 0.2
Non-trading:					
Values based on quoted market prices from third-party sources	$ 58.7	$ 49.7	$ 6.0	$ 1.2	$ 115.6
Values based on models and other valuation methods	64.9	82.9	4.9	(260.6)	(107.9)
Total non-trading	$ 123.6	$ 132.6	$ 10.9	$ (259.4)	$ 7.7
Regulatory net asset (liability)	$ (76.2)	$ (83.4)	$ (5.5)	$ 259.8	$ 94.7

Weather derivatives - PacifiCorp currently has a non-exchange traded streamflow weather derivative contract to reduce PacifiCorp's exposure to variability in weather conditions that affect hydroelectric generation. Under the agreement, PacifiCorp pays an annual premium in return for the right to make or receive payments if streamflow levels are above or below certain thresholds. PacifiCorp estimates and records an asset or liability corresponding to the total expected future cash flow under the contract in accordance with EITF No. 99-2, *Accounting for Weather Derivatives*. The net asset (liability) recorded for this contract was $(2.1) million at March 31, 2006 and $20.3 million at March 31, 2005 and was included in other current assets (liabilities) in the Consolidated Balance Sheets. PacifiCorp recognized a loss of $15.6 million for the year ended March 31, 2006; a gain of $27.9 million for the year ended March 31, 2005; and a gain of $0.4 million for the year ended March 31, 2004.

Note 4 – Related-Party Transactions

Transactions while owned by MEHC – As discussed in Note 1 – Summary of Significant Accounting Policies, PacifiCorp was acquired by MEHC on March 21, 2006. The following describes PacifiCorp's transactions and balances with unconsolidated related parties while owned by MEHC.

PacifiCorp began participating in a captive insurance program provided by MEHC Insurance Services Ltd. ("MISL"), a wholly owned subsidiary of MEHC. MISL covers all or significant portions of the property damage and liability insurance deductibles in many of PacifiCorp's current policies, as well as overhead distribution and transmission line property damage. PacifiCorp has no equity interest in MISL and has no obligation to contribute

equity or loan funds to MISL. Premium amounts are established based on a combination of actuarial assessments and market rates to cover loss claims, administrative expenses and appropriate reserves. Certain costs associated with the program are prepaid and amortized over the policy coverage period expiring March 20, 2007. Prepayments to MISL were $7.2 million at March 31, 2006. Premium expenses were $0.2 million for March 21, 2006 through March 31, 2006.

As of March 31, 2006, Amounts due to affiliates - MEHC included $3.8 million of current income taxes payable to PPW Holdings LLC.

See Note 1 – Summary of Significant Accounting Policies for information related to the transfer of MEHC's 100.0% ownership interest in Intermountain Geothermal Company to PacifiCorp.

Transactions while owned by ScottishPower - There were no loans or advances between PacifiCorp and ScottishPower or between PacifiCorp and PHI. Loans from PacifiCorp to ScottishPower or PHI were prohibited under the Public Utility Holding Company Act of 1935 ("PUHCA"), which was repealed effective February 2006. Loans from ScottishPower or PHI to PacifiCorp generally required state regulatory and SEC approval. There were intercompany loan agreements that allowed funds to be lent to PacifiCorp from PacifiCorp Group Holdings Company ("PGHC"), but loans from PacifiCorp to PGHC were prohibited. There were intercompany loan agreements that allowed funds to be lent between PacifiCorp and Pacific Minerals, Inc., a wholly owned subsidiary of PacifiCorp. PacifiCorp does not maintain a centralized cash or money pool. Therefore, funds of each company were not commingled with funds of any other company.

The tables below detail PacifiCorp's transactions and balances with unconsolidated related parties while owned by ScottishPower.

(Millions of dollars)	March 31, 2006 *	March 31, 2005
Amounts due from former affiliated entities:		
SPUK (a)	$ —	$ 0.3
PHI and its subsidiaries (b)	—	36.2
	$ —	$ 36.5
Prepayments to former affiliated entities:		
PHI and its subsidiaries (c)	$ —	$ 1.5
Amounts due to former affiliated entities:		
SPUK (d)	$ —	$ 3.9
Deposits received from former affiliated entities:		
PHI and its subsidiaries (e)	$ —	$ 0.3

(Millions of dollars)	Years Ended March 31,		
	2006	2005	2004
Revenues from former affiliated entities:			
PHI and its subsidiaries (e)	$ 7.8	$ 5.9	$ 4.4
Expenses recharged to former affiliated entities:			
SPUK (a)	$ 6.2	$ 3.0	$ 0.7
PHI and its subsidiaries (b)	7.3	9.4	8.0
	$ 13.5	$ 12.4	$ 8.7
Expenses incurred from former affiliated entities:			
SPUK (d)	$ 18.6	$ 18.3	$ 7.8
PHI and its subsidiaries (c)	19.3	17.3	17.0
DIIL (f)	7.0	—	—
	$ 44.9	$ 35.6	$ 24.8
Interest expense to former affiliated entities:			
PHI and its subsidiaries (g)	$ —	$ 0.1	$ 0.2

* Amounts settled at close of sale to MEHC.

(a) For the years ended March 31, 2006 and 2005, receivables and expenses included amounts allocated to Scottish Power UK plc ("SPUK"), an indirect subsidiary of ScottishPower, by PacifiCorp for administrative services provided under ScottishPower's affiliated interest cross-charge policy. For the year ended March 31, 2006, expenses also included

costs associated with retention agreements and severance benefits reimbursed by SPUK. In addition, PacifiCorp recharged to SPUK payroll costs and related benefits of PacifiCorp employees working on international assignment in the United Kingdom for ScottishPower during the years ended March 31, 2006, 2005 and 2004.

(b) Amounts shown pertain to activities of PacifiCorp with its former parent PHI and its subsidiaries. Expenses recharged reflect costs for support services to PHI and its subsidiaries. Amounts due from PHI and its subsidiaries included $33.8 million as of March 31, 2005 of income taxes receivable from PHI. PHI was the tax-paying entity while PacifiCorp was owned by ScottishPower.

(c) These expenses primarily related to operating lease payments for the West Valley facility, located in Utah and owned by West Valley Leasing Company, LLC ("West Valley"). West Valley is a subsidiary of PPM Energy, Inc. ("PPM"), which is a subsidiary of PHI. The lease is a 15 year operating lease on an electric generation facility. The facility consists of five generating units each with a nameplate rating of 43.4 MW. Certain costs associated with the West Valley lease are prepaid on an annual basis. Lease expense was $16.4 million for the year ended March 31, 2006; $17.1 million for the year ended March 31, 2005; and $17.0

million for the year ended March 31, 2004. PacifiCorp has an option to terminate the West Valley lease if written notice is provided to West Valley on or before December 1, 2006. If the option to terminate is exercised, the lease would terminate in May 2008. PacifiCorp is committed to future minimum lease payments of $10.0 million annually for each of the 12 months ending March 31, 2007 and 2008 and $1.7 million for the two months ending May 31, 2008. These minimum future lease payments reflect the reduction in monthly payments resulting from a March 2006 amendment to the lease terms.

(d) These liabilities and expenses primarily represented amounts allocated to PacifiCorp by SPUK for administrative services received under the cross-charge policy. Cross-charges from SPUK to PacifiCorp amounted to $16.7 million for the year ended March 31, 2006 and $14.9 million for the year ended March 31, 2005. These costs were recorded in Operations and maintenance expense. SPUK also recharged PacifiCorp for payroll costs and related benefits of SPUK employees working on international assignment with PacifiCorp in the United States.

(e) These revenues and the associated deposits related to wheeling services billed to PPM. PacifiCorp provided these services to PPM pursuant to PacifiCorp's FERC-approved open access transmission tariff, which required PacifiCorp to make transmission services available on a non-discriminatory basis to all interested parties.

(f) PacifiCorp began participating in a captive insurance program provided by Dornoch International Insurance Limited ("DIIL"), an indirect wholly owned consolidated subsidiary of ScottishPower, in May 2005. DIIL covered all or significant portions of the property damage and liability insurance deductibles in many of PacifiCorp's policies, as well as overhead distribution and transmission line property damage. PacifiCorp had no equity interest in DIIL and had no obligation to contribute equity or loan funds to DIIL. Premium amounts were established to cover loss claims, administrative expenses and appropriate reserves, but otherwise DIIL was not operated to generate profits.

(g) Included interest on short-term demand loans made to PacifiCorp by PGHC, in accordance with regulatory authorization.

Note 5 – Marketable Securities

PacifiCorp, by contract with Idaho Power, the minority owner of Bridger Coal Company (an indirect subsidiary of PacifiCorp), maintains a trust relating to final reclamation of a leased coal mining property. Amounts funded are based on estimated future reclamation costs and estimated future coal deliveries. Trust fund assets associated with Bridger Coal Company recorded at fair value included in Deferred charges and other were $101.9 million at March 31, 2006 and $92.4 million at March 31, 2005, including the Idaho Power minority-interest portion. Minority interest in Bridger Coal Company was $49.5 million at March 31, 2006 and $26.2 million at March 31, 2005. See also Note 6 – Asset Retirement Obligations and Accrued Environmental Costs.

The amortized cost and fair value of reclamation trust securities and other investments included in Deferred charges and other on PacifiCorp's Consolidated Balance Sheets, which are classified as available-for-sale, were as follows:

(Millions of dollars)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
March 31, 2006				
Debt securities	$ 25.9	$ 0.2	$ (0.6)	$ 25.5
Equity securities	61.7	7.0	(0.7)	68.0
Total	$ 87.6	$ 7.2	$ (1.3)	$ 93.5
March 31, 2005				
Mutual fund account (a)	$ 27.0	$ —	$ (1.0)	$ 26.0
Debt securities	25.6	0.4	(0.4)	25.6
Equity securities	60.6	13.2	(1.2)	72.6
Total	$ 113.2	$ 13.6	$ (2.6)	$ 124.2

(a) In October 2005, the mutual fund account was transferred to a money market account.

The quoted market price of securities is used to estimate their fair value.

The amortized cost and estimated fair value of debt securities at March 31, 2006 and 2005 by contractual maturities and of equity securities for the same dates are shown below. Actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	March 31,			
	2006		2005	
(Millions of dollars)	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Debt securities				
Due in one year or less	$ 0.7	$ 0.6	$ 0.7	$ 0.7
Due after one year through five years	6.5	6.4	5.6	5.6
Due after five years through ten years	9.9	9.8	9.8	9.9
Due after ten years	8.8	8.7	9.5	9.4
Mutual fund account	—	—	27.0	26.0
Equity securities	61.7	68.0	60.6	72.6
Total	$ 87.6	$ 93.5	$ 113.2	$ 124.2

Proceeds, gross gains and gross losses from realized sales of available-for-sale securities using the specific identification method were as follows for the years ended March 31, 2006, 2005 and 2004:

	Years Ended March 31,		
(Millions of dollars)	2006	2005	2004
Proceeds	$ 123.4	$ 49.1	$ 95.8
Gross gains	$ 16.6	$ 6.3	$ 6.5
Gross losses	(2.3)	(2.2)	(3.4)
Net gains	14.3	4.1	3.1
Less net gains included in Regulatory liabilities (a)	(16.6)	(5.6)	(3.2)
Net losses included in Net income	$ (2.3)	$ (1.5)	$ (0.1)

(a) Realized gains and losses on the Bridger Coal Company reclamation trust described above are recorded as a regulatory liability in accordance with the prescribed regulatory treatment.

Note 6 – Asset Retirement Obligations and Accrued Environmental Costs

Asset Retirement Obligations - PacifiCorp records asset retirement obligations for long-lived physical assets that qualify as legal obligations under SFAS No. 143. PacifiCorp estimates its asset retirement obligation liabilities based upon detailed engineering calculations of the amount and timing of the future cash spending for a third party to perform the required work. Spending estimates are escalated for inflation and then discounted at a credit-adjusted, risk-free rate. PacifiCorp then records an asset retirement obligation asset associated with the liability. The asset retirement obligation assets are depreciated over their expected lives and the asset retirement obligation liabilities are accreted to the projected spending date. Changes in estimates could occur due to plan revisions, changes in estimated costs and changes in timing of the performance of reclamation activities. In addition, PacifiCorp records removal costs as a part of depreciation expense in accordance with regulatory accounting requirements described in Note 2 – Accounting for the Effects of Regulation. Since asset retirement costs are recovered through the ratemaking process, PacifiCorp records a regulatory asset or regulatory liability on the Consolidated Balance Sheets to account for the difference between asset retirement costs as currently approved in rates and

costs under SFAS No. 143.

PacifiCorp does not recognize liabilities for asset retirement obligations for which the fair value cannot be reasonably estimated. PacifiCorp has asset retirement obligations associated with its transmission and distribution

systems and certain coal mines. However, due to the indeterminate removal date, the fair value of the associated liabilities currently cannot be estimated and no amounts are recognized in the Consolidated Financial Statements.

In March 2005, the FASB issued FIN 47. FIN 47 clarifies that an entity is required to recognize a liability for the fair value of a conditional asset retirement obligation when incurred if the fair value of the liability can be reasonably estimated. Upon adoption of FIN 47 at March 31, 2006, PacifiCorp recorded an asset retirement obligation liability at a net present value of $22.7 million. PacifiCorp also increased net depreciable assets by $1.8 million, reclassified $13.5 million of costs accrued for retirement removals from regulatory liabilities to asset retirement obligation liabilities, increased regulatory liabilities by $0.4 million and increased regulatory assets by $7.8 million for the difference between retirement costs approved by regulators and obligations under FIN 47.

The pro forma total asset retirement obligation liability balances that would have been reported assuming FIN 47 had been adopted on April 1, 2004, rather than March 31, 2006, are as follows:

(Millions of dollars)

Pro forma asset retirement obligation liability at April 1, 2004	$215.8
Pro forma asset retirement obligation liability at March 31, 2005	$222.1

Due to regulatory accounting treatment, the adoption of FIN 47 would have no material impact on net income for the pro forma periods listed above and had no impact on PacifiCorp's reported cash flows.

The following table describes the changes to PacifiCorp's asset retirement obligation liability for the years ended March 31, 2006 and 2005:

(Millions of dollars)	March 31, 2006	March 31, 2005
Liability recognized at beginning of period	$ 199.6	$ 193.5
Liabilities incurred (a)	25.2	1.4
Liabilities settled (b)	(10.4)	(13.0)
Revisions in cash flow (c)	(11.2)	8.9
Accretion expense	8.9	8.8
Asset retirement obligation	212.1	199.6
Less current portion (d)	7.0	17.8
Long-term asset retirement obligation at end of period (e)	$ 205.1	$ 181.8

(a) Relates primarily to the adoption of FIN 47 at March 31, 2006.

(b) Relates primarily to ongoing reclamation work at the Glenrock coal mine.

(c) Results from changes in the timing and amounts of estimated cash flows for certain plant reclamation.

(d) Amount included in Other current liabilities on the Consolidated Balance Sheets.

(e) Amount included in Deferred credits - other on the Consolidated Balance Sheets.

PacifiCorp had trust fund assets recorded at fair value included in Deferred charges and other of $103.0 million at March 31, 2006 and $93.4 million at March 31, 2005 relating to mine and plant reclamation, including the minority-interest joint-owner portions.

Accrued Environmental Costs – PacifiCorp's policy is to accrue environmental cleanup-related costs of a non-capital nature when those costs are believed to be probable and can be reasonably estimated. The quantification of environmental exposures is based on assessments of many factors, including changing laws and regulations, advancements in environmental technologies, the quality of information available related to specific sites, the assessment stage of each site investigation, preliminary findings and the length of time involved in remediation or settlement. PacifiCorp hires external consultants from time to time to conduct studies in order to establish reserves for various site environmental remediation costs. PacifiCorp is subject to cost-sharing agreements with other potentially responsible parties based on decrees, orders and other legal

agreements. In these circumstances, PacifiCorp assesses the financial capability of other potentially responsible parties and the reasonableness of

PacifiCorp's apportionment. These agreements may affect the range of potential loss. Additionally, PacifiCorp may benefit from excess insurance policies that may cover some of the cleanup costs if costs incurred exceed certain amounts.

PacifiCorp assesses its potential obligations to perform environmental remediation on an ongoing basis. As a result of studies performed during the year ended March 31, 2006, PacifiCorp increased its reserve by $9.7 million to reflect its most likely estimate for probable liabilities. Remediation costs that are fixed and determinable have been discounted to their present value using credit-adjusted, risk-free discount rates based on the expected future annual borrowing rates of PacifiCorp. The liability recorded was $38.5 million at March 31, 2006 and $33.3 million at March 31, 2005 and is included as part of Deferred credits - other. The March 31, 2006 recorded liability included $18.1 million of discounted liabilities. Had none of the liabilities included in the $38.5 million balance recorded at March 31, 2006 been discounted, the total would have been $40.7 million. The expected payments for each of the five 12 month periods ending March 31 and thereafter are as follows: $5.4 million in 2007, $3.9 million in 2008, $2.4 million in 2009, $1.5 million in 2010, $1.2 million in 2011 and $26.3 million thereafter.

It is possible that future findings or changes in estimates could require that additional amounts be accrued. Should current circumstances change, it is possible that PacifiCorp could incur an additional undiscounted obligation of up to approximately $53.1 million relating to existing sites. However, management believes that completion or resolution of these matters will have no material adverse effect on PacifiCorp's consolidated financial position or results of operations.

Note 7 - Notes Payable and Commercial Paper

Amounts outstanding under PacifiCorp's short-term notes payable and commercial paper arrangements were as follows:

(Millions of dollars)	Balance	Average Interest Rate
March 31, 2006	$ 184.4	4.8%
March 31, 2005	468.8	2.9

Revolving Credit Agreement

PacifiCorp amended and restated its existing $800.0 million committed bank revolving credit agreement in August 2005. Changes included an increase to 65.0% in the covenant not to exceed a specified debt-to-capitalization percentage, extension of the termination date to August 29, 2010 and exclusion of the acquisition of PacifiCorp by MEHC as an event of default under the agreement. As of March 31, 2006, PacifiCorp's revolving credit agreement was fully available and had no borrowings outstanding. The interest on advances under this facility is generally based on the London Interbank Offered Rate (LIBOR) plus a margin that varies based on PacifiCorp's credit ratings. This facility supports PacifiCorp's commercial paper program and $38.1 million of variable rate pollution control revenue bonds.

PacifiCorp's revolving credit agreement contains customary covenants and default provisions and PacifiCorp monitors these covenants on a regular basis. As of March 31, 2006, PacifiCorp was in compliance with the covenants of its revolving credit agreement.

Note 8 - Long-Term Debt and Capital Lease Obligations

PacifiCorp's long-term debt and capital lease obligations were as follows:

(Millions of dollars)	March 31,			
	2006		2005	
	Amount	Average Interest Rate	Amount	Average Interest Rate
First mortgage bonds				
4.3% to 8.8%, due through 2011	$ 901.7	6.0%	$ 1,171.4	6.2%
5.0% to 9.2%, due 2012 to 2016	1,040.4	6.5	1,040.4	6.5
8.5% to 8.6%, due 2017 to 2021	5.0	8.5	5.0	8.5
6.7% to 8.5%, due 2022 to 2026	424.0	7.4	424.0	7.4
5.3 % to 7.7%, due 2032 to 2036	800.0	6.3	500.0	7.0
Unamortized discount	(4.7)		(4.3)	
Guaranty of pollution-control revenue bonds				
Variable rates, due 2014 (a) (b)	40.7	3.1	40.7	2.3
Variable rates, due 2014 to 2026 (b)	325.2	3.2	325.2	2.3
Variable rates, due 2025 (a) (b)	175.8	3.2	175.8	2.3
3.4% to 5.7%, due 2014 to 2026 (a)	184.0	4.5	184.0	4.5
6.2%, due 2031	12.7	6.2	12.7	6.2
Unamortized discount	(0.5)		(0.5)	
Funds held by trustees	(2.2)		(2.1)	
Capital lease obligations				
10.4% to 14.8%, due through 2035	35.8	11.7	26.6	11.9
Total	3,937.9		3,898.9	
Less current maturities	(216.9)		(269.9)	
Total	$ 3,721.0		$ 3,629.0	

(a) Secured by pledged first mortgage bonds generally at the same interest rates, maturity dates and redemption provisions as the pollution-control revenue bonds.

(b) Interest rates fluctuate based on various rates, primarily on certificate of deposit rates, interbank borrowing rates, prime rates or other short-term market rates.

First mortgage bonds of PacifiCorp may be issued in amounts limited by PacifiCorp's property, earnings and other provisions of the mortgage indenture. Approximately $13.8 billion of the eligible assets (based on original cost) of PacifiCorp are subject to the lien of the mortgage.

Approximately $2.3 billion of first mortgage bonds were redeemable at PacifiCorp's option at March 31, 2006 at redemption prices dependent upon United States Treasury yields. Approximately $541.7 million of variable-rate pollution-control revenue bonds were redeemable at PacifiCorp's option at par at March 31, 2006. Approximately $71.2 million of fixed-rate pollution-control revenue bonds were redeemable at PacifiCorp's option at par at March 31, 2006. The remaining long-term debt was not redeemable at March 31, 2006.

In September 2005, the SEC declared effective PacifiCorp's shelf registration statement covering $700.0 million of future first mortgage bond and unsecured debt issuances. PacifiCorp has not yet issued any of the securities covered by this registration statement.

In June 2005, PacifiCorp issued $300.0 million of its 5.25% Series of First Mortgage Bonds due June 15, 2035. PacifiCorp used the proceeds for the reduction of short-term debt, including the short-term debt used in December 2004 to redeem its 8.625% Series of First Mortgage Bonds due December 13, 2024 totaling $20.0 million.

In March 2005, the maturity dates were extended to December 1, 2020 for three series of variable-rate pollution-control revenue bonds totaling $38.1 million.

PacifiCorp leases equipment and real estate in various states in which it does business under long-term agreements, extending through March 2035, which are classified as capital leases. These capital leases are payable in monthly installments allocated between principal and imputed interest rates ranging from 10.4% to 14.8%.

In April 2005, PacifiCorp entered into a 30-year transportation service agreement with Questar Pipeline Company for the right to use a newly constructed pipeline facility with a majority of the output designated to provide natural gas to the Currant Creek Power Plant. This agreement qualifies as a capital lease with an initial net present value lease obligation of $12.4 million at an imputed interest rate of 11.3%.

The annual maturities of long-term debt and capital lease obligations for the 12 months ending March 31 are:

(Millions of dollars)	Long-term Debt	Capital Lease Obligations	Total
2007	$ 216.3	$ 4.8	$ 221.1
2008	119.9	4.8	124.7
2009	412.4	4.8	417.2
2010	138.5	5.0	143.5
2011	14.6	4.9	19.5
Thereafter	3,007.8	63.8	3,071.6
	3,909.5	88.1	3,997.6
Unamortized discount	(5.2)	—	(5.2)
Funds held by trustee	(2.2)	—	(2.2)
Amounts representing interest	—	(52.3)	(52.3)
	$ 3,902.1	$ 35.8	$ 3,937.9

PacifiCorp made interest payments, net of capitalized interest, of $240.3 million for the year ended March 31, 2006; $220.4 million for the year ended March 31, 2005; and $236.7 million for the year ended March 31, 2004.

At March 31, 2006, PacifiCorp had $517.8 million of standby letters of credit and standby bond purchase agreements available to provide credit enhancement and liquidity support for variable-rate pollution-control revenue bond obligations. In addition, PacifiCorp had approximately $40.5 million of standby letters of credit to provide credit support for certain transactions as requested by third parties. These committed bank arrangements were all fully available as of March 31, 2006 and expire periodically through the 12 months ending March 31, 2011.

PacifiCorp's standby letters of credit and standby bond purchase agreements generally contain similar covenants to those contained in PacifiCorp's revolving credit agreement, although the maximum permitted debt-to-capitalization ratio for one of the standby bond purchase agreements was 60.0% as of March 31, 2006 and was amended in May 2006 to now permit a maximum ratio of 65.0%. See Note 7 – Notes Payable and Commercial Paper for further information. PacifiCorp monitors these covenants on a regular basis in order to ensure that events of default will not occur and as of March 31, 2006, PacifiCorp was in compliance with the covenants of these agreements.

Note 9 – Preferred Stock Subject to Mandatory Redemption

PacifiCorp's Preferred stock subject to mandatory redemption was as follows:

(Thousands of shares, millions of dollars)	March 31, 2006		March 31, 2005	
Series	Shares	Amount	Shares	Amount
Preferred stock subject to mandatory redemption $7.48 No Par Serial Preferred, $100 stated value, 16,000 shares authorized	450	$ 45.0	525	$ 52.5

PacifiCorp has mandatory redemption requirements on 37,500 shares of the $7.48 series Preferred stock on June 15, 2006, with a non-cumulative option to redeem an additional 37,500 shares on June 15, 2006, at $100.0 per share, plus accrued and unpaid dividends to the date of such redemption. All outstanding shares on June 15, 2007 are subject to mandatory redemption. Holders of Preferred stock subject to mandatory redemption are entitled to certain voting rights and may have the right to elect members to the PacifiCorp Board of Directors in the event dividends payable are in default in an amount equal to four full quarterly payments. PacifiCorp redeemed $7.5 million of Preferred stock subject to mandatory and optional redemption during each of the years ended March 31, 2006, 2005 and 2004.

PacifiCorp had $0.8 million at March 31, 2006 and $1.0 million at March 31, 2005 in dividends declared but unpaid on Preferred stock subject to mandatory redemption that were included in Interest payable.

Note 10 - Commitments and Contingencies

PacifiCorp follows SFAS No. 5, to determine accounting and disclosure requirements for contingencies. PacifiCorp operates in a highly regulated environment. Governmental bodies such as the FERC, state regulatory commissions, the SEC, the Internal Revenue Service, the Department of Labor, the United States Environmental Protection Agency (the "EPA") and others have authority over various aspects of PacifiCorp's business operations and public reporting. Reserves are established when required in management's judgment, and disclosures regarding litigation, assessments and creditworthiness of customers or counterparties, among others, are made when appropriate. The evaluation of these contingencies is performed by various specialists inside and outside of PacifiCorp.

From time to time, PacifiCorp is also a party to various legal claims, actions, complaints and disputes, certain of which involve material amounts. PacifiCorp has recorded $6.7 million in reserves as of March 31, 2006 related to various outstanding legal actions and disputes, excluding those discussed below. This amount represents PacifiCorp's best estimate of probable losses related to these matters. PacifiCorp currently believes that disposition of these matters will not have a material adverse effect on PacifiCorp's consolidated financial position, results of operations or liquidity.

Environmental matters - PacifiCorp is subject to numerous environmental laws, including the federal Clean Air Act and various state air quality laws; the Endangered Species Act, particularly as it relates to certain endangered species of fish; the Comprehensive Environmental Response, Compensation and Liability Act, and similar state laws relating to environmental cleanups; the Resource Conservation and Recovery Act and similar state laws relating to the storage and handling of hazardous materials; and the Clean Water Act, and similar state laws relating to water quality. These laws could potentially impact future operations. Environmental contingencies identified at March 31, 2006 principally consist of air quality matters. Pending or proposed air regulations will require PacifiCorp to reduce its electricity plant emissions of sulfur dioxide, nitrogen oxides and other pollutants below current levels. These reductions will be required to address regional haze programs, mercury emissions regulations and possible re-interpretations and changes to the federal Clean Air Act. In the future, PacifiCorp expects to incur significant costs to comply with various stricter air emissions requirements. These potential costs are expected to consist primarily of capital expenditures. PacifiCorp expects these costs would be included in rates and, as such, would not have a material adverse impact on PacifiCorp's consolidated results of operations. See also Note 6 – Asset Retirement Obligations and Accrued Environmental Costs.

Hydroelectric relicensing - PacifiCorp's hydroelectric portfolio consists of 51 plants with an aggregate plant net capability of 1,159.4 MW. The FERC regulates 93.9% of the installed capacity of this portfolio through 18 individual licenses. Several of PacifiCorp's hydroelectric projects are in some stage of relicensing under the Federal Power Act. Hydroelectric relicensing and the related environmental compliance requirements are subject to uncertainties. PacifiCorp expects that future costs relating to these matters may be significant and will consist primarily of additional relicensing costs, operations and maintenance expense, and capital expenditures. Electricity generation reductions may result from the additional environmental requirements. PacifiCorp had incurred $70.3 million in costs as of March 31, 2006 for ongoing hydroelectric relicensing, which are reflected in Construction work-in-progress on the Consolidated Balance Sheet. PacifiCorp expects that these and future costs will be included in rates and, as such, will not have a material adverse impact on PacifiCorp's consolidated financial position or results of operations.

In October 2005, the new FERC license for the North Umpqua hydroelectric project became final under the terms of the North Umpqua Settlement Agreement. Prior to this date, the license had been effective, but not final, because environmental groups had challenged its legality before the FERC and in federal court. In September 2005, the Ninth Circuit Court of Appeals issued an order upholding the new license. Since the Court's order was not appealed within the allowed time, all legal challenges of the FERC license order have been exhausted and the license is final for purposes of recording liabilities. PacifiCorp is committed, over the 35-year life of the license, to fund approximately $48.4 million for environmental mitigation and enhancement projects. As a result of the license becoming final, PacifiCorp recorded additional liabilities and intangible assets in October 2005 amounting to a present value of $11.2 million. At March 31, 2006, the liability recorded for all North Umpqua obligations amounted to a present value of $21.8 million.

FERC Issues

California Refund Case - PacifiCorp is a party to a FERC proceeding that is investigating potential refunds for energy transactions in the California Independent System Operator and the California Power Exchange markets during past periods of high energy prices. PacifiCorp has a reserve of $17.7 million for these potential refunds. PacifiCorp's ultimate exposure to refunds is dependent upon any order issued by the FERC in this proceeding. In addition, beginning in summer 2000, California market conditions resulted in defaults of amounts due to PacifiCorp from certain counterparties resulting from transactions with the California Independent System Operator and California Power Exchange. PacifiCorp has reserved $5.0 million for these receivables.

FERC Market Power Analysis - Pursuant to the FERC's orders granting PacifiCorp authority to sell capacity and energy at market-based rates, PacifiCorp and certain of its former affiliates had been required to submit a joint market power analysis every three years. Under the FERC's current policy, applicants must demonstrate that they do not possess market power in order to charge market-based rates for sales of wholesale energy and capacity in the applicants' control areas. An analysis demonstrating an applicant's passage of certain threshold screens for assessing generation market power establishes a rebuttable presumption that the applicant does not possess generation market power, while failure to pass any screen creates a rebuttable presumption that the applicant has generation market power. In February 2005, PacifiCorp submitted a joint triennial market power analysis in compliance with the FERC's requirements. The analysis indicated that PacifiCorp failed to pass one of the generation market power screens in PacifiCorp's eastern control area and in Idaho Power Company's control area. In May 2005, the FERC issued an order instituting a proceeding pursuant to section 206 of the Federal Power Act to determine whether PacifiCorp may continue to charge market-based rates for sales of wholesale energy and capacity. Under the terms of the order, PacifiCorp and its formerly affiliated co-applicants were required to submit additional information and analysis to the FERC within 60 days to rebut the presumption that PacifiCorp has generation market power. In June and July 2005, PacifiCorp filed additional analysis in response to the FERC's May 2005 order. In January 2006, the FERC requested PacifiCorp to amend its previous filings with additional analysis, which was filed in March 2006. If the FERC ultimately finds that PacifiCorp has market power, PacifiCorp will be required to implement measures to mitigate any exercise of market power, which may result in decreased revenues and/or increased operating expenses. PacifiCorp believes the outcome of this proceeding will not have a material impact on its consolidated financial position or results of operations.

Note 11 – Guarantees and Other Commitments

Guarantees

PacifiCorp is generally required to obtain state regulatory commission approval prior to guaranteeing debt or obligations of other parties. In November 2002, the FASB issued Interpretation No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others* ("FIN 45"). FIN 45 requires disclosure of certain direct and indirect guarantees.

The following represent the indemnification obligations of PacifiCorp as of March 31, 2006 and 2005.

PacifiCorp has made certain commitments related to the decommissioning or reclamation of certain jointly owned facilities and mine sites. The decommissioning guarantees require PacifiCorp to pay a proportionate share of the decommissioning costs based upon percentage of ownership. The mine reclamation obligations require PacifiCorp to pay the mining entity a proportionate share of the mine's reclamation costs based on the amount of coal purchased by PacifiCorp. In the event of default by any of the other joint participants, PacifiCorp potentially may be obligated to absorb, directly or by paying additional sums to the entity, a proportionate share of the defaulting party's liability.

PacifiCorp has recorded its estimated share of the decommissioning and reclamation obligations as either an asset retirement obligation, regulatory liability or other liability.

In connection with the sale of PacifiCorp's Montana service territory, PacifiCorp entered into a purchase and sale agreement with Flathead Electric Cooperative in October 1998. Under the agreement, PacifiCorp indemnified Flathead Electric Cooperative for losses, if any, occurring after the closing date and arising as a result of certain breaches of warranty or covenants. The indemnification has a cap of $10.1 million until October 2008 and a cap of $5.1 million thereafter (less expended costs to date). Two indemnity claims relating to environmental issues have been tendered, but remediation costs for these claims, if any, are not expected to be material.

From time to time, PacifiCorp executes contracts that include indemnities typical for the underlying transactions, which are related to sales of businesses, property, plant and equipment, and service territories. These indemnities might include any of the following matters: privacy rights; governmental regulations and employment-related issues; commercial contractual relationships; financial reports; tax-related issues; securities laws; and environmental-related issues. Performance under these indemnities generally would be triggered by breach of representations and warranties in the contract. PacifiCorp regularly evaluates the probability of having to incur costs under the indemnities and appropriately accrues for expected losses that are probable and estimable. Some of these indemnities may not limit potential liability; therefore, PacifiCorp is unable to estimate a maximum potential amount of future payments that could result from claims made under these indemnities. PacifiCorp believes that the likelihood that it would be required to perform or otherwise incur any significant losses associated with any of these obligations is remote.

Unconditional Purchase Obligations

(Millions of dollars)	Payments due during the 12 months ending March 31,						
	2007	2008	2009	2010	2011	Thereafter	Total
Construction	$ 111.4	$ 33.2	$ —	$ —	$ —	$ —	$ 144.6
Operating leases	15.0	15.3	2.9	2.1	2.1	8.8	46.2
Purchased electricity	756.3	426.7	284.1	290.6	258.0	2,146.7	4,162.4
Transmission	45.7	39.5	37.7	35.3	36.8	503.3	698.3
Fuel	516.8	600.5	522.5	452.7	339.8	1,931.5	4,363.8
Other	52.6	61.0	59.5	53.6	53.4	837.0	1,117.1
Total commitments	$1,497.8	$1,176.2	$ 906.7	$ 834.3	$ 690.1	$5,427.3	$10,532.4

Construction - PacifiCorp has an ongoing construction program to meet increased electricity usage, customer growth and system reliability objectives. At March 31, 2006, PacifiCorp had estimated long-term unconditional purchase obligations for construction of the new Lake Side Power Plant.

Operating leases - PacifiCorp leases offices, certain operating facilities, land and equipment under operating leases that expire at various dates through the 12 months ended March 31, 2093. Certain leases contain renewal options for varying periods and escalation clauses for adjusting rent to reflect changes in price indices. These leases generally require PacifiCorp to pay for insurance, taxes and maintenance applicable to the leased property. Excluded from the operating lease payments above are any power purchase agreements that meet the definition of an operating lease.

Net rent expense was $28.8 million for the year ended March 31, 2006; $26.1 million for the year ended March 31, 2005; and $29.4 million for the year ended March 31, 2004.

Minimum non-cancelable sublease rent payments expected to be received through the 12 months ended March 31, 2013 total $6.8 million.

Purchased electricity - As part of its energy resource portfolio, PacifiCorp acquires a portion of its electricity through long-term purchases and/or exchange agreements. Included in the purchased electricity payments above are any power purchase agreements that meet the definition of an operating lease.

Included in the minimum fixed annual payments for purchased electricity above are commitments to purchase electricity from several hydroelectric projects under long-term arrangements with public utility districts. These purchases are made on a "cost-of-service" basis for a stated percentage of project output and for a like percentage of project operating expenses and debt service. These costs are included in Energy costs in the Consolidated Statements of Income. PacifiCorp is required to pay its portion of operating costs and its portion of the debt service, whether or not any electricity is produced.

At March 31, 2006, PacifiCorp's share of long-term arrangements with public utility districts was as follows:

(Millions of dollars) Generating Facility	Year Contract Expires	Capacity (MW)	Percentage of Output	Annual Costs (a)
Wanapum	2009	194.1	18.7%	$ 6.6
Rocky Reach	2011	67.8	5.3	3.6
Priest Rapids	2045	61.0	6.5	2.0
Wells	2018	58.3	6.9	2.1
Total		381.2		$ 14.3

(a) Includes debt service totaling $7.0 million.

PacifiCorp's minimum debt service and estimated operating obligations included in purchased electricity above for the 12 months ending March 31 are as follows:

(Millions of dollars)	Minimum Debt Service	Operating Obligations
2007	$ 9.3	$ 8.3
2008	9.3	8.4
2009	9.3	8.6
2010	4.7	4.8
2011	4.7	4.9
Thereafter	55.5	84.3
	$ 92.8	$ 119.3

PacifiCorp has a 4.0% entitlement to the generation of the Intermountain Power Project, located in central Utah, through a power purchase agreement. PacifiCorp and the City of Los Angeles have agreed that the City of Los Angeles will purchase capacity and energy from PacifiCorp's 4.0% entitlement of the Intermountain Power Project at a price equivalent to 4.0% of the expenses and debt service of the project.

Fuel - PacifiCorp has "take or pay" coal and natural gas contracts that require minimum payments.

Other - Unconditional purchase obligations, as defined by accounting standards, are those long-term commitments that are non-cancelable or cancelable only under certain conditions. PacifiCorp has such commitments related to legal or contractual asset retirement obligations, environmental obligations, hydroelectric obligations, equipment maintenance and various other service and maintenance agreements.

Resource Management

PacifiCorp, as a public utility and a franchise supplier, has an obligation to manage resources to supply its customers. Rates charged to most customers are tariff rates authorized by regulatory agencies as discussed in Note 2 – Accounting for the Effects of Regulation.

Note 12 - Jointly Owned Facilities

At March 31, 2006, PacifiCorp's share in jointly owned facilities was as follows:

(Millions of dollars)	PacifiCorp Share	Plant in Service	Accumulated Depreciation/ Amortization	Construction Work-in-Progress
Jim Bridger Nos. 1 - 4 (a)	66.7%	$ 922.2	$ 467.6	$ 18.3
Wyodak	80.0	308.8	165.9	14.8
Hunter No. 1	93.8	307.7	142.5	1.8
Colstrip Nos. 3 and 4 (a)	10.0	239.2	116.2	1.5
Hunter No. 2	60.3	212.2	99.4	8.1
Hermiston (b)	50.0	167.0	38.9	1.6
Craig Station Nos. 1 and 2	19.3	165.3	71.3	0.7
Hayden Station No. 1	24.5	41.1	18.6	1.0
Foote Creek	78.8	36.3	10.4	—
Hayden Station No. 2	12.6	26.4	12.8	0.3
Trojan (c)	2.5	—	—	—
Other transmission and distribution plants	Various	78.6	21.2	—
Unallocated acquisition adjustments (d)		157.2	75.8	—
Total		$ 2,662.0	$ 1,240.6	$ 48.1

(a) Includes kilovolt lines and substations.

(b) Additionally, PacifiCorp has contracted to purchase the remaining 50.0% of the output of the Hermiston Plant. See Note 13 – Consolidation of Variable-Interest Entities.

(c) The Trojan Plant was closed in 1993 and PacifiCorp is allowed recovery of costs associated with the plant over the remaining life of the original license. Plant, inventory, fuel and decommissioning costs totaling $8.1 million relating to the Trojan Plant were included in regulatory assets at March 31, 2006.

(d) Represents the excess of the costs of the acquired interests in purchased facilities over their original net book values.

Under the joint ownership agreements, each participating utility is responsible for financing its share of construction, operating and leasing costs. PacifiCorp's portion is recorded in its applicable construction work-in-progress, operations, maintenance and tax accounts, which is consistent with wholly owned plants.

Note 13 – Consolidation of Variable-Interest Entities

In December 2003, the FASB issued revised FIN 46, *Consolidation of Variable-Interest Entities, an interpretation of Accounting Research Bulletin No. 51* ("FIN 46R"), which requires existing unconsolidated variable-interest entities ("VIEs") to be consolidated by their primary beneficiaries if the entities do not effectively disperse risks among parties involved. FIN 46R was adopted as of January 1, 2004 and resulted in disclosures describing identifiable variable interests.

VIE's Required to be Consolidated

PacifiCorp holds an undivided interest in 50.0% of the 474-MW Hermiston Plant (see Note 12 – Jointly Owned Facilities), procures 100.0% of the fuel input into the plant and subsequently receives 100.0% of the generated electricity, 50.0% of which is acquired through a long-term purchase power agreement. As a result, PacifiCorp holds a variable interest in the joint owner of the remaining 50.0% of the plant and is the primary beneficiary. However, upon adoption of FIN 46R, PacifiCorp was unable to obtain the information necessary to consolidate the entity, because the entity did not agree to supply the information due to the lack of a contractual obligation to do so. PacifiCorp continues to request from the entity the information necessary to perform the consolidation; however, no information has yet been provided by the entity. Electricity purchased from the joint owner was $35.2 million during the year ended March 31, 2006; $34.8 million during the year ended March

31, 2005; and $33.7 million during the year ended March 31, 2004. The entity is operated by the equity owners, and PacifiCorp has no risk of loss in relation to the entity in the event of a disaster.

Significant Variable-Interests in VIE's not Required to be Consolidated

As discussed in Note 4 – Related-Party Transactions, PacifiCorp leases the West Valley facility from a former affiliate under an operating lease that contains purchase options at specified prices. Although the purchase options are variable-interests in West Valley, PacifiCorp is not the primary beneficiary of the entity. PacifiCorp's exposure to loss under the operating lease is negligible.

PacifiCorp is a party to certain operating and coal purchase agreements with Trapper Mining, Inc. that create a variable interest under the provisions of FIN 46R. Trapper Mining, Inc. owns and operates the Trapper Mine near Craig, Colorado, and produces 100.0% of its output for the benefit of the Craig Power Plant. PacifiCorp has a 21.4% equity interest in Trapper Mining, Inc. and also holds a 19.3% undivided interest in the Craig Power Plant as disclosed in Note 12 – Jointly Owned Facilities. Since each equity investor in Trapper Mining, Inc. also holds a similar interest in the Craig Power Plant, and since none of the joint owners have more than a 50.0% interest in the Craig Power Plant or Trapper Mining, Inc., none of the joint owners are required to consolidate Trapper Mining, Inc. Accordingly, PacifiCorp will continue to account for its interest in Trapper Mining, Inc. via the equity method under APB No. 18, *The Equity Method of Accounting for Investments in Common Stock*, as in prior periods.

Note 14 – Preferred Stock

PacifiCorp's Preferred stock was as follows:

(Thousands of shares, millions of dollars, except per share amounts) Series	Redemption Price Per Share	March 31, 2006 Shares	March 31, 2006 Amount	March 31, 2005 Shares	March 31, 2005 Amount
Preferred stock not subject to mandatory redemption Serial Preferred, $100 stated value, 3,500 shares authorized					
4.52 %	$ 103.5	2	$ 0.2	2	$ 0.2
4.56	102.3	85	8.4	85	8.4
4.72	103.5	70	6.9	70	6.9
5.00	100.0	42	4.2	42	4.2
5.40	101.0	66	6.6	66	6.6
6.00	Non-redeemable	6	0.6	6	0.6
7.00	Non-redeemable	18	1.8	18	1.8
5% Preferred, $100 stated value, 127 shares authorized	110.0	126	12.6	126	12.6
		415	$ 41.3	415	$ 41.3

Generally, Preferred stock is redeemable at stipulated prices plus accrued dividends, subject to certain restrictions. Upon voluntary liquidation, all Preferred stock is entitled to stated value or a specified preference amount per share plus accrued dividends. Upon involuntary liquidation, all Preferred stock is entitled to stated value plus accrued dividends. Any premium paid on redemptions of Preferred stock is capitalized, and recovery is sought through future rates. Dividends on all Preferred stock are cumulative. Holders also have the right to elect members to the PacifiCorp Board of Directors in the event dividends payable are in default in an amount equal to four full quarterly payments.

PacifiCorp had $0.5 million at both March 31, 2006 and March 31, 2005 in dividends declared but unpaid on Preferred stock. The shares and amounts outstanding for each series of Preferred stock not subject to mandatory redemption were unchanged from March 31, 2004 through March 31, 2006.

Note 15 - Common Shareholder's Equity

Common Shareholder's Equity - PacifiCorp has one class of common stock with no par value. A total of 750,000,000 shares were authorized and 357,060,915 shares were issued and outstanding at March 31, 2006 and 312,176,089 shares were issued and outstanding at March 31, 2005. During the year ended March 31, 2006, PacifiCorp issued 44,884,826 shares of its common stock to PHI, its former parent company, at a total price of $484.7 million. The proceeds from the sale of the shares were used to repay short-term debt.

On March 20, 2006, immediately prior to the closing of PacifiCorp's sale to MEHC, PacifiCorp paid a dividend on common stock, at that time held by PHI, in the aggregate amount of $16.8 million. The dividend was reduced pursuant to Amendment No. 1 to the Stock Purchase Agreement among MEHC, ScottishPower and PHI executed on the date of the transaction's closing from the $56.6 million aggregate amount originally declared by the PacifiCorp Board of Directors on January 27, 2006.

In the past, to the extent PacifiCorp did not reimburse ScottishPower for stock-based compensation awarded under ScottishPower plans, such amounts increased the value of PacifiCorp's common shareholder's capital.

Common Dividend Restrictions - MEHC is the sole indirect shareholder of PacifiCorp's common stock. The state regulatory orders that authorized the acquisition of PacifiCorp by MEHC contain restrictions on PacifiCorp's ability to pay dividends to the extent that they would reduce PacifiCorp's common stock equity below specified percentages of defined capitalization.

As of March 31, 2006, the most restrictive of these commitments prohibits PacifiCorp from making any distribution to PPW Holdings LLC or MEHC without prior state regulatory approval to the extent that it would reduce PacifiCorp's common stock equity below 48.25% of its total capitalization, excluding short-term debt and current maturities of long-term debt. After December 31, 2008, this minimum level of common equity declines annually to 44.0% after December 31, 2011. The terms of this commitment treat 50.0% of PacifiCorp's preferred stock outstanding prior to the acquisition of PacifiCorp by MEHC as common equity. As of March 31, 2006, PacifiCorp's actual common stock equity percentage, as calculated under this measure, exceeded the minimum threshold.

In addition, PacifiCorp is restricted from making any distributions to PPW Holdings LLC or MEHC if PacifiCorp's unsecured debt rating is BBB- or lower by Standard & Poor's Rating Services or Fitch Ratings or Baa3 or lower by Moody's Investor Service, as indicated by two of the three rating services. As of March 31, 2006, PacifiCorp's unsecured debt rating was BBB+ by Standard & Poor's Rating Services and Fitch Ratings and Baa1 by Moody's Investor Service.

PacifiCorp is also subject to maximum debt-to-total capitalization levels under various debt agreements.

Note 16 - Fair Value of Financial Instruments

(Millions of dollars)	March 31, 2006		March 31, 2005	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Long-term debt (a)	$ 3,902.1	$ 4,091.4	$ 3,872.3	$ 4,209.5
Preferred stock subject to mandatory redemption	45.0	46.3	52.5	56.0

(a) Includes long-term debt classified as currently maturing, less capital lease obligations.

The carrying value of cash and cash equivalents, receivables, payables, accrued liabilities and short-term borrowings approximates fair value because of the short-term maturity of these instruments.

The fair value of PacifiCorp's long-term debt, current maturities of long-term debt and redeemable preferred stock has been estimated by discounting projected future cash flows, using the current rate at which similar loans would be made to borrowers with similar credit ratings and for the same maturities.

Note 17 - Employee Benefits

PacifiCorp sponsors defined benefit pension plans that cover the majority of its employees and also provides health care and life insurance benefits through various plans for eligible retirees. The measurement date for plan assets and obligations is December 31 of each year.

As a result of the sale of PacifiCorp to MEHC, plan participants that were employees or retirees of certain ScottishPower affiliates and a former PacifiCorp mining subsidiary ceased to participate in PacifiCorp's plans. This separation resulted in a net $3.5 million reduction in Common shareholder's capital.

Pension Plans

PacifiCorp's pension plans include the PacifiCorp Retirement Plan (the "Retirement Plan"), the SERP and a joint trust plan to which PacifiCorp contributes on behalf of certain bargaining unit employees of IBEW Local 57. Benefits under the Retirement Plan are based on the employee's years of service and average monthly pay in the 60 consecutive months of highest pay out of the last 120 months, with adjustments to reflect benefits estimated to be received from social security. Pension costs are funded annually by no more than the maximum amount that can be deducted for federal income tax purposes.

Components of the net periodic pension benefit cost (income) are summarized as follows:

(Millions of dollars)	Years Ended March 31,		
	2006	2005	2004
Service cost (a)	$ 32.2	$ 25.9	$ 25.8
Interest cost	74.4	73.8	73.9
Expected return on plan assets (b)	(76.9)	(77.7)	(80.7)
Amortization of unrecognized net transition obligation	8.4	8.4	8.4
Amortization of unrecognized prior service cost	1.2	1.4	1.5
Amortization of unrecognized loss	21.5	8.5	—
Cost of termination benefits	3.0	—	—
Net periodic pension benefit cost	$ 63.8	$ 40.3	$ 28.9

(a) Includes contributions to the PacifiCorp/IBEW Local 57 Retirement Trust Fund of $1.4 million for the year ended March 31, 2006; no contributions for the year ended March 31, 2005; and contributions of $5.6 million for the year ended March 31, 2004.

(b) The market-related value of plan assets, among other factors, is used to determine expected return on plan assets and is calculated by spreading the difference between expected and actual investment returns over a five-year period beginning in the first year in which they occur.

The weighted-average rates assumed in the actuarial calculations used to determine the net periodic benefit costs for the pension and postretirement benefit plans were as follows:

	Years Ended March 31,		
	2006	2005	2004
Discount rate	5.75%	6.25%	6.75%
Expected long-term rate of return on assets	8.75	8.75	8.75
Rate of increase in compensation levels	4.00	4.00	4.00

PacifiCorp determined the long-term rate of return based on historical asset class returns and current market conditions, taking into account the diversification benefits of investing in multiple asset classes.

The weighted-average rates assumed in the actuarial calculations used to determine benefit obligations for the pension and postretirement benefit plans were as follows:

	March 31,		
	2006	2005	2004
Discount rate	5.75%	5.75%	6.25%
Rate of increase in compensation levels	4.00	4.00	4.00

The change in the projected benefit obligation, change in plan assets and funded status of the pension plans are as follows:

(Millions of dollars)	March 31,	
	2006	2005
Change in projected benefit obligation		
Projected benefit obligation - beginning of year	$ 1,338.1	$ 1,229.8
Service cost	30.8	25.9
Interest cost	74.4	73.8
Plan amendments	2.9	1.0
Cost of termination benefits	3.0	—
Separation of former participants	(44.3)	—
Actuarial loss	22.9	86.8
Benefits paid	(84.1)	(79.1)
Transfers	(1.5)	(0.1)
Projected benefit obligation - end of year	$ 1,342.2	$ 1,338.1
Change in plan assets		
Plan assets at fair value - beginning of year	$ 806.5	$ 733.2
Actual return on plan assets	72.6	87.5
Separation of former participants	(32.0)	—
Company contributions	63.8	65.0
Benefits paid	(84.1)	(79.1)
Transfers	(1.9)	(0.1)
Plan assets at fair value - end of year	$ 824.9	$ 806.5
Reconciliation of accrued pension cost and total amount recognized		
Funded status of the plan	$ (517.3)	$ (531.6)
Unrecognized net loss	435.6	443.6
Unrecognized prior service cost	10.0	9.1
Unrecognized net transition obligation	7.3	15.9
Accrued postretirement benefit before final contribution	(64.4)	(63.0)
Contribution made after measurement date but before March 31	3.7	—
Accrued pension cost	$ (60.7)	$ (63.0)

Accrued benefit liability	$ (342.3)	$ (383.2)
Intangible asset	17.3	25.0
Accumulated other comprehensive income, pre-tax	6.6	14.5
Regulatory assets	257.7	280.7
Accrued pension cost	$ (60.7)	$ (63.0)

The aggregated accumulated benefit obligation was $1,170.9 million and the fair value of assets was $828.6 million, measured as of December 31, 2005, and including contributions prior to March 31, 2006.

The Retirement Plan and the SERP currently have assets with a fair value that is less than the accumulated benefit obligation under the Retirement Plan and the SERP, primarily due to prior declines in the equity markets and historically low interest rate levels. As a result, PacifiCorp recognized minimum pension liabilities in the fourth quarters of the years ended March 31, 2006 and 2005. The minimum pension liability adjustment impacted Regulatory assets, Intangible assets and Accumulated other comprehensive income. These adjustments are reflected in the table above and did not materially affect the consolidated results of operations. PacifiCorp requested and received accounting orders from the regulatory commissions in Utah, Oregon, Wyoming and Washington to classify most of the minimum pension liability adjustment as a Regulatory asset instead of a charge to Other comprehensive income. This increase to Regulatory assets will be adjusted in future periods as the difference between the fair value of the trust assets and the accumulated benefit obligation changes. PacifiCorp has determined that costs related to SFAS No. 87, *Employers' Accounting for Pensions* ("SFAS No. 87") for the Retirement Plan are currently recoverable in rates.

Retirement Plan assets are managed and invested in accordance with all applicable requirements, including the Employee Retirement Income Security Act and the Internal Revenue Code. PacifiCorp employs an investment approach that uses a mix of equities and fixed-income investments to maximize the long-term return of plan assets at a prudent level of risk. Risk tolerance is established through careful consideration of plan liabilities, plan funded status, and corporate financial condition. The investment portfolio contains a diversified blend of equity and fixed-income investments as shown in the table below. Equity investments are diversified across United States and non-United States stocks, as well as growth and value companies, and small and large market capitalizations. Fixed-income investments are diversified across United States and non-United States bonds. Other assets, such as private equity investments, are used to enhance long-term returns while improving portfolio diversification. PacifiCorp primarily minimizes the risk of large losses through diversification but also monitors and manages other aspects of risk through quarterly investment portfolio reviews, annual liability measurements and periodic asset/liability studies.

Details of the Retirement Plan assets by investment category based on market values are as follows:

		March 31,	
	Target	2006	2005
Equity securities	55.0%	58.5%	56.1%
Debt securities	35.0	34.5	33.9
Private equity	10.0	7.0	10.0

Although the SERP had no qualified assets as of March 31, 2006, PacifiCorp has a Rabbi trust that holds corporate-owned life insurance and other investments to provide funding for the future cash requirements of the SERP. Because this plan is nonqualified, the assets in the Rabbi trust are not considered plan assets. The cash surrender value of all of the policies included in the Rabbi trust plus the fair market value of other Rabbi trust investments was $36.4 million at March 31, 2006 and $34.7 million at March 31, 2005, net of amounts borrowed against the cash surrender value.

Other Postretirement Benefits

The cost of other postretirement benefits, including health care and life insurance benefits for eligible retirees, is accrued over the active service period of employees. The transition obligation represents the unrecognized prior service cost and is being amortized over a period of 20 years. PacifiCorp funds other postretirement benefits through a combination of funding vehicles. PacifiCorp contributed $29.7 million for the year ended March 31, 2006; $24.9 million for the year ended March 31, 2005; and $25.3 million for the year ended March 31, 2004. The measurement date for plan assets and obligations is December 31 of each year.

For the postretirement benefit plan assets, PacifiCorp employs an investment approach that uses a mix of equities and fixed-income investments to maximize the long-term return of plan assets for a prudent level of risk. Risk tolerance is established through careful consideration of plan liabilities, plan funded status and corporate financial condition. The investment portfolio contains a diversified blend of equity and fixed-income investments. Equity investments are diversified across United States and non-United States stocks, as well as growth and value companies, and small and large market capitalizations. Fixed-income investments are diversified across United States and non-United States bonds. Other assets, such as private equity investments, are used to enhance long-term returns while improving portfolio diversification. PacifiCorp primarily minimizes the risk of large losses through diversification, but also monitors and manages other aspects of risk through quarterly investment portfolio reviews, annual liability measurements and periodic asset/liability studies.

The assets for other postretirement benefits are composed of three different trust accounts. The 401(h) account is invested in the same manner as the pension account. Each of the two Voluntary Employees' Beneficiaries Association Trusts has its own investment allocation strategies. Details of the Voluntary Employees' Beneficiaries Association Trusts' assets by investment category based on market values are as follows:

		March 31,	
	Target	2006	2005
Equity securities	65.0%	66.0%	66.4%
Debt securities	35.0	34.0	33.6

Components of the net periodic postretirement benefit cost are summarized as follows:

	Years Ended March 31,		
(Millions of dollars)	2006	2005	2004
Service cost	$ 8.8	$ 8.5	$ 7.4
Interest cost	30.4	31.0	34.3
Expected return on plan assets (a)	(26.3)	(26.4)	(26.6)
Amortization of unrecognized net transition obligation	12.2	12.2	12.2
Amortization of unrecognized loss	2.7	0.6	0.6
Amortization of prior service cost	2.1	0.1	—
Net periodic postretirement benefit cost	$ 29.9	$ 26.0	$ 27.9

(a) The market-related value of plan assets, among other factors, is used to determine expected return on plan assets and is calculated by spreading the difference between expected and actual investment returns over a five-year period beginning in the first year in which they occur.

The change in the accumulated postretirement benefit obligation, change in plan assets and funded status of the postretirement plan is as follows:

(Millions of dollars)	March 31, 2006	March 31, 2005
Change in accumulated postretirement benefit obligation		
Accumulated postretirement benefit obligation - beginning of year	$ 528.3	$ 555.3
Service cost	8.8	8.5
Interest cost	30.4	31.0
Plan participant contributions	8.3	7.2
Plan amendments	22.8	0.8
Separation of former participants	(8.9)	—
Actuarial loss (gain)	34.3	(34.4)
Benefits paid	(41.6)	(40.1)
Accumulated postretirement benefit obligation - end of year	$ 582.4	$ 528.3
Change in plan assets		
Plan assets at fair value - beginning of year	$ 286.6	$ 261.6
Actual return on plan assets	20.4	28.6
Company contributions	22.5	29.3
Plan participant contributions	8.3	7.2
Separation of former participants	(4.1)	—
Net benefits paid	(41.6)	(40.1)
Plan assets at fair value - end of year	$ 292.1	$ 286.6
Reconciliation of accrued postretirement costs and total amount recognized		
Funded status of the plan	$ (290.3)	$ (241.7)
Unrecognized net transition obligation	81.1	94.6
Unrecognized prior service cost	22.1	1.4
Unrecognized loss	138.1	100.1
Accrued postretirement benefit cost, before final contribution	(49.0)	(45.6)
Contribution made after measurement date but before March 31	29.7	24.9
Accrued postretirement cost	$ (19.3)	$ (20.7)

The assumed health care cost trend rates are as follows:

	March 31, 2006	March 31, 2005	March 31, 2004
Initial health care cost trend - under 65	10.0%	7.5%	8.5%
Initial health care cost trend - over 65	10.0	9.5	10.5
Ultimate health care cost trend rate	5.0	5.0	5.0
Year that rate reaches ultimate - under 65	2011	2007	2007
Year that rate reaches ultimate - over 65	2011	2009	2009

The health care cost trend rate assumption has a significant effect on the amounts reported. An annual increase or decrease in the assumed medical care cost trend rate of 1.0% would affect the accumulated postretirement benefit obligation and the service and interest cost components as follows:

(Millions of dollars)	One Percent	
	Increase	Decrease
Accumulated postretirement benefit obligation	$ 43.7	$ (35.5)
Service and interest cost components	2.8	(2.4)

Future Contributions and Benefit Payments

In April 2006, PacifiCorp contributed $72.7 million to its Retirement Plan. In addition, PacifiCorp expects to contribute another $11.0 million to its pension plans, as well as $36.6 million to its postretirement benefit plan, during the 12 months ending March 31, 2007. The benefit payments expected to be paid, which reflect expected future service and the Medicare Part D subsidy expected to be received, are as follows:

(Millions of dollars) 12 months ending March 31,	Retirement Plans	Other Postretirement Benefits	Medicare Part D Subsidy Receipts
2007	$ 92.5	$ 35.8	$ (3.0)
2008	92.4	37.9	(3.4)
2009	93.6	40.0	(3.9)
2010	94.7	42.1	(4.3)
2011	97.7	44.4	(4.6)
2012 to 2016 (inclusive)	541.2	248.2	(29.9)

Employee Savings Plan

PacifiCorp has an employee savings plan (the "Savings Plan") that qualifies as a tax-deferred arrangement under the Internal Revenue Code. Eligible employees of adopting affiliates are those who are not temporary, casual, leased or covered by a collective bargaining agreement that does not provide for participation. Employees of any company within the PacifiCorp controlled group of companies that has not adopted the Savings Plan are not eligible. Participating United States employees may defer up to 50.0% of their compensation, subject to certain statutory limitations. Compensation includes base pay, overtime and annual incentive, but is limited to the maximum allowable under the Internal Revenue Code. Employees can select a variety of investment options. PacifiCorp matches 50.0% of employee contributions on amounts deferred up to 6.0% of total compensation, with that portion vesting over the initial five years of an employee's qualifying service. Thereafter, PacifiCorp's contributions vest immediately. PacifiCorp's matching contribution is allocated based on the employee's investment selections. PacifiCorp may also make an additional contribution equal to a percentage of the employee's eligible earnings. This additional contribution is allocated based on the employee's investment selections or to the money market fund if the employee has made no selections. These contributions are immediately vested. PacifiCorp's contributions to the Savings Plan were $22.5 million for the year ended March 31, 2006; $20.2 million for the year ended March 31, 2005; and $19.3 million for the year ended March 31, 2004; and represent amounts expensed for such periods.

Severance

As a result of general workforce reductions and ScottishPower's corporate restructuring during the year ended March 31, 2006, PacifiCorp incurred severance expense of $4.1 million under its severance and other benefit plans related to the involuntary termination of approximately 62 employees. Services provided by these employees are expected to be complete by March 31, 2007.

As a result of the MEHC acquisition, PacifiCorp has experienced organizational changes and additional workforce reductions resulting in severance expense of $12.9 million during the year ended March 31, 2006 under its severance and other benefit plans, primarily related to the involuntary termination of 29 employees. Additional severance expense is expected to be incurred in the future as additional organizational changes occur.

Note 18 – Stock-Based Compensation

PacifiCorp Stock Incentive Plan ("PSIP") - During 1997, PacifiCorp adopted the PSIP. The exercise price of options granted under the PSIP was equal to the market value of the common stock on the date of the grant. ScottishPower took control of the plan upon completion of its merger and all stock options were converted into options to purchase ScottishPower American Depository Shares. The PSIP expired on November 29, 2001 and all outstanding options under the plan were fully vested as of March 31, 2005.

As a result of the sale of PacifiCorp to MEHC and in accordance with the PSIP provisions regarding a change in control, all outstanding options must be exercised no later than 12 months after the date of the sale of PacifiCorp; otherwise they will be forfeited.

ScottishPower Executive Share Option Plan ("ExSOP") - In prior years, a select group of PacifiCorp employees received grants of stock options under the ScottishPower ExSOP. Certain grants awarded in May 2001 were performance-based awards which resulted in $2.0 million of compensation expense included in Operations and maintenance expense for the year ended March 31, 2005.

As a result of the sale of PacifiCorp to MEHC on March 21, 2006, all ExSOP options held by PacifiCorp employees became fully vested in accordance with the change-in-control provisions of the ExSOP. The change-in-control provisions also provide that all outstanding options are exercisable up to the later of 12 months after the date of the sale of PacifiCorp or 42 months after the date of original option grant. Options that are not exercised within this time period will be forfeited. As of the date of the sale, PacifiCorp ceased to participate in the plan but as of March 31, 2006, there are still options outstanding and exercisable by PacifiCorp employees.

The table below summarizes the stock option activity under the PSIP and the ExSOP.

	PSIP		ExSOP	
ScottishPower American Depository Shares	Number of Shares	Weighted Average Price	Number of Shares	Weighted Average Price
Outstanding options at March 31, 2003	3,403,251	$ 31.67	935,054	$ 23.55
Granted	—	—	780,901	24.40
Exercised	(147,496)	25.55	(25,508)	23.55
Forfeited	(331,706)	34.65	(41,991)	23.93
Outstanding options at March 31, 2004	2,924,049	31.64	1,648,456	23.94
Granted	—	—	763,843	28.72
Exercised	(750,126)	26.10	(483,667)	23.84
Forfeited	(40,310)	35.36	(30,136)	26.37
Outstanding options at March 31, 2005	2,133,613	33.52	1,898,496	25.85
Exercised	(1,325,284)	31.32	(1,404,637)	25.58
Forfeited	(30,578)	35.86	(16,096)	27.59
Transfers due to separation	(68,710)	37.35	(164,677)	25.56
Outstanding options at March 31, 2006	709,041	37.15	313,086	27.15

Information with respect to options outstanding and options exercisable under the PSIP and the ExSOP as of March 31, 2006 and 2005 were as follows:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Life (in years)	Number of Shares	Weighted Average Exercise Price
Year ended March 31, 2006					
PSIP					
$25.70 - $36.64	268,205	$ 31.25	1.0	268,205	$ 31.25
$39.99 - $41.38	440,836	40.74	1.0	440,836	40.74
Total	709,041	37.15	1.0	709,041	37.15
ExSOP					
$23.55 - $28.72	313,086	$ 27.15	1.4	313,086	$ 27.15
Year ended March 31, 2005					
PSIP					
$25.70 - $36.64	1,589,323	$ 31.05	4.2	1,589,323	$ 31.05
$39.99 - $43.83	544,290	40.72	3.0	544,290	40.72
Total	2,133,613	33.52	3.9	2,133,613	33.52
ExSOP					
$23.55 - $28.72	1,898,496	$ 25.85	8.2	182,134	$ 23.97

ScottishPower Long-Term Incentive Plan - In prior years, a select group of PacifiCorp employees received grants of performance share awards under ScottishPower's Long-Term Incentive Plan. The number of shares that actually vest is dependent upon the outcome of certain performance measures over a three-year period. The plan's change-in-control provisions resulted in removal of the employees' future service requirement as of the date of the acquisition but retained the three-year performance requirements. As a result, the number of shares that ultimately vest at the end of the performance period, if any, will be prorated to reflect only the portion of the three-year period which had elapsed between the date of original grant and the date of the sale of PacifiCorp to MEHC. During the year ended March 31, 2006, no stock-based compensation expense was recorded because the performance measures were not yet reached.

Deferred Share Program - In May 2004, ScottishPower implemented a deferred share program under which certain PacifiCorp employees were granted an annual stock bonus award based on a fixed dollar amount but distributable in ScottishPower American Depository Shares with the number of shares to be determined by the quoted market price of the shares at the date of issuance. Historically, compensation expense was accrued throughout the year in which the employee services were rendered and awards earned. During the year ended March 31, 2005, $3.1 million of compensation costs were accrued. However, as a result of the sale of PacifiCorp to MEHC, the program was modified during the year ended March 31, 2006 to provide for a cash payment rather than a share-based payment. The plan was discontinued as of April 1, 2006.

Note 19 - Income Taxes

The difference between the United States federal statutory tax rate and the effective income tax rate attributed to income from continuing operations is as follows:

	Years Ended March 31,		
	2006	2005	2004
Federal statutory rate	35.0%	35.0%	35.0%
State taxes, net of federal benefit	2.9	3.8	3.6
Effect of regulatory treatment of depreciation differences	2.5	4.1	4.5
Tax reserves	1.1	(0.9)	(3.1)
Tax credits	(2.6)	(2.3)	(2.5)
Other	(3.3)	0.4	(0.8)
Effective income tax rate	35.6%	40.1%	36.7%

The provision for income taxes is summarized as follows:

(Millions of dollars)	Years Ended March 31,		
	2006	2005	2004
Current			
Federal	$ 167.3	$ 58.6	$ 63.0
State	18.2	(10.1)	1.0
Total	185.5	48.5	64.0
Deferred			
Federal	19.7	112.6	77.8
State	2.1	15.3	10.6
Total	21.8	127.9	88.4
Investment tax credits	(7.9)	(7.9)	(7.9)
Total income tax expense	$ 199.4	$ 168.5	$ 144.5

The tax effect of temporary differences giving rise to significant portions of PacifiCorp's deferred tax liabilities and deferred tax assets were as follows:

(Millions of dollars)	March 31,	
	2006	2005
Deferred tax liabilities:		
Property, plant and equipment	$ 1,531.2	$ 1,512.3
Regulatory assets	623.0	667.9
Derivative contract regulatory assets	35.9	64.5
Other deferred tax liabilities	114.3	126.3

	2,304.4	2,371.0
Deferred tax assets:		
Regulatory liabilities	(316.9)	(325.2)
Employee benefits	(170.9)	(185.4)
Derivative contracts	(44.0)	(102.6)
Other deferred tax assets	(134.5)	(126.8)
	(666.3)	(740.0)
Net deferred tax liability	$ 1,638.1	$ 1,631.0

PacifiCorp made net income tax payments of $140.0 million for the year ended March 31, 2006; $92.0 million for the year ended March 31, 2005; and $114.1 million for the year ended March 31, 2004. The income tax payments include payments for current federal and state income taxes, as well as amounts paid in settlement of prior years' liabilities as a result of income tax proceedings.

PacifiCorp has established, and periodically reviews, an estimated contingent tax reserve on its Consolidated Balance Sheets to provide for the possibility of adverse outcomes in tax proceedings. The net federal and state contingency reserve increased $6.1 million during the year ended March 31, 2006 primarily due to new issues identified for tax years ended after March 31, 2000. The Internal Revenue Service started its examination of the 2001, 2002 and 2003 tax years in October 2004. PacifiCorp anticipates that final settlement and payment on settled issues and other unresolved issues will not have a material adverse impact on its consolidated financial position or results of operations.

The sale of PacifiCorp to MEHC on March 21, 2006 triggered the recognition of a deferred intercompany gain or loss for tax purposes. The recognition of the tax effects of this item is considered to have been recognized immediately prior to the closing of the sale of PacifiCorp while it was part of the PHI consolidated group. PacifiCorp is currently unable to estimate the amount of the tax effect, if any, or determine a range of the potential tax effect. Due to the uncertainty of the amount of the deferred intercompany gain or loss, no adjustments have been recorded as of March 31, 2006.

Pursuant to a formal agreement with PHI and ScottishPower, any tax liabilities generated as a result of a deferred intercompany gain would be recorded as an equity contribution to PacifiCorp. Additionally, as this transaction is deemed to be with shareholders, the net tax expense would be recorded as a reduction in Common shareholder's capital similar to a return of capital distribution. As a result, there would be no net impact to PacifiCorp's Common shareholder's capital, statement of financial position or results of operations.

If a deferred intercompany loss is determined to exist, PacifiCorp would be required to recognize the tax benefit of the deferred intercompany loss as an increase in Common shareholder's capital and establish a corresponding tax receivable or deferred tax asset, depending on whether PacifiCorp would be able to currently utilize the capital loss. In the event a deferred tax asset is created with respect to the capital loss, it will be necessary to determine whether a valuation allowance should be established against the deferred tax asset.

At March 31, 2006, PacifiCorp had no federal or state net operating loss carryforwards. At March 31, 2005, PacifiCorp had total available federal net operating loss carryforwards of approximately $2.7 million and no state net operating loss carryforwards. PacifiCorp has Oregon business energy tax credits of approximately $0.6 million at March 31, 2006 available to reduce future income tax liabilities. These credits begin to expire in 2012. PacifiCorp has Idaho investment tax credits of approximately $1.9 million at March 31, 2006 that are available to reduce future income tax liabilities. These credits begin to expire in 2017. PacifiCorp anticipates utilizing the tax credits prior to the expiration dates.

Note 20 - Concentration of Customers

During the year ended March 31, 2006, no single retail customer accounted for more than 2.0% of PacifiCorp's retail electric revenues, and the 20 largest retail customers accounted for 13.0% of total retail electric revenues. The geographical distribution of PacifiCorp's retail operating revenues for the year ended March 31, 2006 was: Utah, 40.9%; Oregon, 29.3%; Wyoming, 13.3%; Washington, 8.4%; Idaho, 5.7%; and California, 2.4%.

Note 21 - Subsequent Events

On May 10, 2006, the PacifiCorp Board of Directors determined to change PacifiCorp's fiscal year-end from March 31 to December 31. PacifiCorp's report covering the transition period beginning April 1, 2006 and ending December 31, 2006 will be filed on Form 10-K.

SUPPLEMENTAL INFORMATION

QUARTERLY FINANCIAL DATA (UNAUDITED)

(Millions of dollars, except per share amounts)	Quarters Ended			
	June 30	September 30	December 31	March 31
2006				
Revenues	$ 881.4	$ 620.7	$ 1,165.0	$1,229.6
Income from operations	135.9	129.2	256.2	270.7
Net income	46.4	39.4	127.8	147.1
Earnings on common stock	45.9	38.9	127.2	146.6
Common dividends declared per share	16.3¢	16.3¢	16.3¢	4.8¢
Common dividends paid per share	16.3¢	16.3¢	16.3¢	4.8¢
2005				
Revenues	$ 747.8	$ 828.7	$ 849.5	$ 622.8
Income from operations	129.9	165.3	155.2	206.0
Net income	50.9	61.9	51.3	87.6
Earnings on common stock	50.4	61.4	50.7	87.1
Common dividends declared per share	15.5¢	15.5¢	15.5¢	15.5¢
Common dividends paid per share	15.5¢	15.5¢	15.5¢	15.5¢

On March 31, 2006, MEHC was the only common shareholder of record.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

No information is required to be reported pursuant to this item.

ITEM 9A. CONTROLS AND PROCEDURES

PacifiCorp maintains disclosure controls and procedures designed to provide reasonable assurance that material information required to be disclosed by it in the reports it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that the information is accumulated and communicated to PacifiCorp's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. PacifiCorp performed an evaluation, under the supervision and with the participation of its management, including its Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of PacifiCorp's disclosure controls and procedures as of the end of the period covered by this report. Based on this evaluation, PacifiCorp's management, including its Chief Executive Officer and Chief Financial Officer, concluded that the disclosure controls and procedures were effective as of the end of the period covered by this report.

On March 21, 2006, MEHC completed its purchase of PacifiCorp, at which time PacifiCorp became a subsidiary of MEHC. Although PacifiCorp has maintained its disclosure controls and procedures that were in effect prior to the acquisition, subsequent to the acquisition there have been material changes in PacifiCorp's internal control over financial reporting. The material changes are due to the effect of the acquisition on PacifiCorp's control environment, which includes changes in the composition of the board of directors, PacifiCorp's organizational structure, audit committee oversight and its corporate governance framework. PacifiCorp believes these changes have not negatively affected its internal control over financial reporting.

During the three months ended March 31, 2006, there was no other change in PacifiCorp's internal control over financial reporting identified in connection with the evaluation required by paragraph (d) of Securities Exchange Act of 1934 Rules 13a-15 or 15d-15 that occurred that has materially affected, or is reasonably likely to materially affect, PacifiCorp's internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

No information is required to be reported pursuant to this item.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The following is a list of directors and executive officers of PacifiCorp. There are no family relationships among the executive officers of PacifiCorp. Officers of PacifiCorp are normally elected annually.

Name and Age	Business Experience Past Five Years
Gregory E. Abel (43)	Chief Executive Officer and Chairman. Director since March 2006.
	Mr. Abel was elected Chief Executive Officer and Chairman of PacifiCorp's Board of Directors in March 2006. Mr. Abel is also the President and Chief Operating Officer and a director of MEHC. Mr. Abel joined MEHC in 1992.
Douglas L. Anderson (48)	Director since March 2006.
	Mr. Anderson is the Senior Vice President, General Counsel and Corporate Secretary of MEHC. Mr. Anderson joined MEHC in February 1993 and has served in various legal positions, including General Counsel of MEHC's independent power affiliates. Prior to that, Mr. Anderson was a corporate attorney in private practice.
William J. Fehrman (45)	President, PacifiCorp Energy. Director since March 2006.
	Mr. Fehrman was elected President, PacifiCorp Energy in March 2006 and has responsibility for PacifiCorp's electric generation, commercial and energy trading and coal-mining operations. He joined MEHC in March 2006 to oversee integration activities of MEHC's acquisition of PacifiCorp. Prior to joining MEHC, Mr. Fehrman was President and Chief Executive Officer of Nebraska Public Power District in Columbus, Nebraska. He joined Nebraska Public Power in 1981, serving as its President and Chief Executive Officer since January 2003 and before that as Vice President of Energy Supply.
Brent E. Gale (54)	Director since March 2006.
	Mr. Gale was appointed Senior Vice President of Regulation and Legislation of MEHC in March 2006. Previously he had been Senior Vice President of MidAmerican Energy Company, a MEHC subsidiary, since July 2004. Mr. Gale has served in various legal, regulatory and strategic positions with MidAmerican Energy Company and its predecessors for more than five years prior to that.
Patrick J. Goodman (39)	Director since March 2006.

Mr. Goodman is Senior Vice President and Chief Financial Officer of MEHC. Mr. Goodman joined MEHC in 1995 and has served in various financial positions, including Chief Accounting Officer.

Andrew P. Haller (54) Senior Vice President, General Counsel and Corporate Secretary. Director since May 2003.

Mr. Haller joined PacifiCorp as its Senior Vice President, General Counsel and Corporate Secretary in December 2000 and was also named General Counsel for Pacific Power in March 2006. Prior to joining PacifiCorp, he was chief executive for the United States operations of Kvaerner Process, a position he assumed in 1999. Mr. Haller began his career with Kvaerner in 1987, and held various senior counsel and management positions, including Senior Vice President and General Counsel-Americas. From 1998 to 1999, he served as the Associate General Counsel for the parent company, Kvaerner ASA, in its United States corporate headquarters.

Nolan E. Karras (61) Director since February 1993.

Mr. Karras is President of The Karras Company, Inc., an investment adviser, and has served in that capacity since 1983. He is Chief Executive Officer of Western Hay Company, Inc., a non-executive director of Scottish Power plc and Beneficial Life Insurance Company and is a Registered Principal for Raymond James Financial Services.

A. Robert Lasich (46) Vice President and General Counsel, PacifiCorp Energy. Director since March 2006.

Mr. Lasich joined PacifiCorp and was elected to his current positions in March 2006. Previously he served as Vice President of MEHC with responsibility for integration and transition matters related to the acquisition of PacifiCorp since July 2005. Prior to that, Mr. Lasich was Vice President of Gas Supply and Trading for MidAmerican Energy Company since August 2004. He joined MidAmerican Energy Company in October 1997 and has also served as a senior attorney in its legal department.

Mark C. Moench (50) Senior Vice President and General Counsel, Rocky Mountain Power. Director since March 2006.

Mr. Moench joined PacifiCorp and was elected to his current positions in March 2006. Previously he served as Senior Vice President, Law, of MEHC with responsibility for regulatory approvals of the PacifiCorp acquisition since June 2005. Prior to that, Mr. Moench was Vice President and General Counsel of Kern River Gas Transmission Company since 2002, when Kern River was acquired by MEHC from the Williams Companies, Inc., which he joined in 1987. Mr. Moench served the Williams Companies in various senior legal positions, including as General Counsel of Kern River.

Richard D. Peach (42) Senior Vice President and Chief Financial Officer. Director since May 2003.

Mr. Peach was elected PacifiCorp's Chief Financial Officer effective January 2003 and elected Senior Vice President in March 2006. Mr. Peach had served previously as Senior Vice President of Finance since March 2002. Prior to his appointment as Chief Financial Officer, he also served as Group Controller for Scottish Power plc from March 2000 to December 2002, Head of Customer Services, Energy Supply for ScottishPower from April 1999 to March 2000 and in various other management positions with ScottishPower since 1995.

A. Richard Walje (54) President, Rocky Mountain Power. Director since July 2001.

Mr. Walje was elected President, Rocky Mountain Power in March 2006 and has responsibility for the electric distribution operations of PacifiCorp in Utah, Idaho and Wyoming. Mr. Walje previously served as PacifiCorp's Executive Vice President since April 2004 and as Chief Information Officer since May 2000. Previously he served as PacifiCorp's Senior Vice President of Corporate Business Services from May 2001 to April 2004 and as PacifiCorp's Vice President for Transmission and Distribution Operations and Customer Service from 1998 to 2000. Mr. Walje has been with PacifiCorp since 1986.

Stanley K. Watters (47) President, Pacific Power. Director since March 2006.

Mr. Watters was elected President, Pacific Power in March 2006 and has responsibility for the electric distribution operations of PacifiCorp in Oregon, Washington and California. Mr. Watters was elected Senior Vice President of Commercial and Trading in June 2003. Mr. Watters served as Vice President of Trading and Origination from July 2001 to June 2003 and as Managing Director of Wholesale Energy Services since 1998. Mr. Watters has been with PacifiCorp since 1982.

Bruce N. Williams (47) Treasurer.

Mr. Williams has served as PacifiCorp's Treasurer since February 2000. Prior to being elected Treasurer, he served as Assistant Treasurer of PacifiCorp and has been with PacifiCorp since 1985.

In addition to following MEHC's Code of Business Conduct and Berkshire Hathaway's Code of Business Conduct and Ethics Policy, which provide a basis for employee ethical standards and conduct for all employees, the PacifiCorp Board of Directors previously approved and implemented a "Code of Ethics for Principal Officers" designed to promote the integrity of PacifiCorp's financial reporting and legal compliance. The Code of Ethics for Principal Officers applies to PacifiCorp's Chief Executive Officer and its financial and accounting officers. The Guide to Business Conduct and Code of Ethics for Principal Officers are available in the "About Us - Company Overview" section of PacifiCorp's website at www.pacificorp.com. PacifiCorp intends to make available on its website any amendment to, or waiver from, the Code of Ethics for Principal Officers as the Code applies to PacifiCorp's Chief Executive Officer and its financial and accounting officers.

Through its affiliation with Berkshire Hathaway, PacifiCorp participates in The Network, an independent company that employees and vendors can call to report business conduct issues confidentially and anonymously involving fraud, financial reporting irregularities, misrepresentation of financial reports, non-compliance with internal controls, or suspected illegal or unethical activity.

Because PacifiCorp's common stock is indirectly, wholly owned by MEHC, its Board of Directors consists primarily of internal executives and it is not required to have an audit committee. However, the audit committee of MEHC acts as the audit committee for PacifiCorp.

ITEM 11. EXECUTIVE COMPENSATION

PACIFICORP BOARD OF DIRECTORS REPORT ON EXECUTIVE COMPENSATION

Introduction

The PacifiCorp Board of Directors submits this report on executive compensation, which outlines the compensation provided to PacifiCorp's executive officers. For most of the year ended March 31, 2006, PacifiCorp was owned by ScottishPower, and this report generally reflects the executive compensation philosophy, practices and programs

maintained under ScottishPower ownership. PacifiCorp's acquisition by MEHC on March 21, 2006 generally did not result in material changes to PacifiCorp executive compensation practices, but any such changes are described in this Item 11.

Compensation Committee Interlocks and Insider Participation

Under ScottishPower ownership, the Remuneration Committee of the ScottishPower Board of Directors, assisted by its outside advisors, had the responsibility to approve compensation levels and executive compensation plans for the PacifiCorp Chief Executive Officer, as well as any ScottishPower executive officers serving as PacifiCorp executive officers in a dual capacity, and to review compensation for other executive officers and senior management of PacifiCorp. During the year ended March 31, 2006, the Remuneration Committee was composed entirely of independent, non-executive directors. With the exception of any compensation requiring review by the Remuneration Committee, the Compensation Committee of the PacifiCorp Board of Directors, which under ScottishPower ownership consisted of the PacifiCorp Chief Executive Officer and, at various times during the year ended March 31, 2006, the ScottishPower Chief Executive Officer, the ScottishPower Human Resources Director and PacifiCorp's General Counsel, had responsibility for approving compensation levels and executive compensation plans for executive officers of PacifiCorp. The Remuneration Committee also approved any stock-based compensation to PacifiCorp executive officers, all of which was in the form of ScottishPower equity.

Effective upon MEHC's acquisition of PacifiCorp, PacifiCorp's Board of Directors eliminated its Compensation Committee and delegated its duties to the Chairman of the Board of Directors, Gregory E. Abel. Mr. Abel also serves as PacifiCorp's Chief Executive Officer and as MEHC's President and Chief Operating Officer. He is employed by MEHC and receives no compensation from PacifiCorp or specific compensation from MEHC for his PacifiCorp service; accordingly, references to executive officers in this Item 11 exclude Mr. Abel unless otherwise indicated. The following describes the components of PacifiCorp's executive compensation program and the basis upon which recommendations and determinations were made for the year ended March 31, 2006.

Compensation Philosophy

PacifiCorp's philosophy is that executive compensation should be linked closely to corporate and operational performance, customer service and increases in shareholder value. PacifiCorp's executive compensation program has the following objectives:

(i) provide competitive total compensation that enables PacifiCorp to attract and retain key executives;

(ii) provide variable compensation opportunities that are linked to PacifiCorp, operational area, and individual performance; and

(iii) establish an appropriate balance between incentives focused on short-term objectives and those encouraging sustained performance improvements.

Qualifying compensation for deductibility under Internal Revenue Code Section 162(m) is one of the factors that PacifiCorp considers in designing PacifiCorp's incentive compensation arrangements for executive officers. Internal Revenue Code Section 162(m) limits to $1.0 million the annual deduction by a publicly held corporation of compensation paid to any executive officer, except with respect to certain forms of incentive compensation that qualify for exclusion. Although it is the intent to design and administer compensation programs that maximize deductibility, PacifiCorp views the objectives outlined above as more important than compliance with the technical requirements necessary to exclude compensation from the deductibility limit of Internal Revenue Code Section 162(m). Nevertheless, with the exception of severance payments made to PacifiCorp's former President and Chief Executive Officer, Judith A. Johansen, PacifiCorp believes that nearly all compensation paid to the executive officers for services rendered in the year ended March 31, 2006, is fully deductible.

Compensation Program Components

During the year ended March 31, 2006, the compensation programs were focused on market-based comparisons on the relevant industry for each executive officer. The electric utility industry was utilized as the exclusive basis for market comparison for positions with a principal focus on electric operations. For positions with a corporate-wide focus, the general industry and electric utility industry were used for market comparison. In all cases, compensation

is targeted at market median levels, with an assumption that total compensation greater than market median, in any specific time period, anticipates that PacifiCorp and industry performance exceeds the median performance of peer companies.

PacifiCorp's executive compensation programs have three principal elements: base salaries, annual incentive compensation and long-term incentive compensation, as described below.

Base Salaries

Base salaries and target incentive amounts are reviewed for adjustment at least annually based upon competitive pay levels, individual performance and potential, and changes in duties and responsibilities. Base salary and the target incentive are set at a level such that total annual compensation for satisfactory performance would approximate the median of pay levels in the comparison group used to develop competitive data. In the year ended March 31, 2006, the base salary of each executive officer was increased, based on market analysis, to reflect competitive market changes, individual performance and changes in the responsibilities of some officers.

Annual Incentive Compensation

All PacifiCorp executive officers, including those listed in the Summary Compensation Table other than Mr. Abel, participate in PacifiCorp's Annual Incentive Plan (the "AIP"). In May 2006, PacifiCorp determined that named executive officers are eligible under certain conditions for payments under the AIP in June 2006 as follows: Judith A. Johansen, $393,751; Andrew P. Haller, $185,980; A. Richard Walje, $158,789; Richard D. Peach, $184,356; Stanley K. Watters, $131,016; and Matthew Wright, $142,916.

Long-Term Incentive Compensation

In May 2005, the ScottishPower Remuneration Committee approved grants of performance share awards under ScottishPower's Long-Term Incentive Plan (the "LTIP") for a select group of PacifiCorp executive officers and other senior managers. LTIP awards were also made in April 2004 to certain executive officers and senior managers. The LTIP provides for awards of performance shares that link the rewards closely between management and shareholders and focus on long-term corporate performance. The awards will vest only if the Remuneration Committee is satisfied that certain threshold customer service and financial performance measures are achieved. The number of shares that actually vest depends upon ScottishPower's comparative Total Shareholder Return performance over a three-year performance period. Vested shares are released to participants only after the conclusion of the performance period. In addition to the criteria described above, the vesting of LTIP awards held by PacifiCorp executive officers and senior managers will be prorated to reflect only the portion of the three-year performance period in which PacifiCorp was owned by ScottishPower.

In April 2004, the ScottishPower Remuneration Committee also approved grants of stock options under the ExSOP for certain executive officers and other senior managers, which were awarded in May 2004. These grants were the last stock options awarded under the ExSOP. Upon the closing of PacifiCorp's sale to MEHC, all outstanding ExSOP options vested in full. A number of restricted stock and stock option awards originally made under the PSIP, which was assumed by ScottishPower in connection with its acquisition of PacifiCorp in 1999 and expired in 2001, remain outstanding but are fully vested. Except for the ExSOP grants awarded in May 2004, ExSOP and PSIP awards relate to ScottishPower American Depository Shares or Ordinary Shares and will remain outstanding until March 21, 2007. The ExSOP awards granted in May 2004, will remain outstanding until November 2007.

In May 2004, the ScottishPower Remuneration Committee approved a new program to replace the ExSOP, called the Deferred Share Program, which was part of the AIP for executive officers and senior management. Eligible employees received an increase to their AIP maximum target incentive payment, with the increase paid in ScottishPower American Depository Shares, for the year ended March 31, 2005. For the year ended March 31, 2006, the Deferred Share Program was modified and potential payments for eligible employees under the program were added to cash payments under the AIP. This program was discontinued as of April 1, 2006.

William Fehrman, President of Pacificorp Energy, currently participates in MEHC's Long-Term Incentive Partnership Plan. The participation of the other named executive officers (excluding Mr. Abel, who is not a participant) in the plan will be evaluated for PacifiCorp's fiscal year ending December 31, 2007. A copy of the plan is attached as Exhibit 10.71 to the MEHC Annual Report on Form 10-K for the year ended December 31, 2004.

Compensation of Directors

Directors are not paid any fees for serving as directors. All directors are reimbursed for their expenses incurred in attending Board meetings.

Executive Compensation

The following table sets forth information concerning compensation for services in all capacities to PacifiCorp for the years ended March 31, 2006, 2005 and 2004 of the Chief Executive Officer of PacifiCorp, the next four other most highly compensated executive officers of PacifiCorp who were serving as executive officers at the end of the last completed fiscal year and two former PacifiCorp executive officers, either of whom would have been among the four other most highly compensated executive officers if they had been serving in such capacity as of March 31, 2006.

Summary Compensation Table

					Long-Term Compensation			
		Annual Compensation (b)						
Name and Principal Position	Year	Salary (c)	Bonus (d)	All Other Compensation (e)	Restricted Stock Awards	Securities Underlying Options	LTIP Payout (f)	ScottishPower Performance Shares (g)
Gregory E. Abel (a) Chairman and Chief Executive Officer		—	—	—	—	—	—	—
Judith A. Johansen (h)	2006	$ 808,042	$ 393,751	$ 4,115,523	—	—	$ —	15,839
Former President and	2005	743,750	437,500	23,311	—	52,228	—	19,916
Chief Executive Officer	2004	589,394	337,500	22,883	—	61,475	—	12,458
Andrew P. Haller	2006	361,349	185,980	108,955	—	—	—	3,774
Senior Vice President,	2005	334,480	167,137	20,515	—	11,667	—	4,746
General Counsel and	2004	327,996	190,109	20,165	—	13,530	—	5,484
Corporate Secretary								
A. Richard Walje	2006	343,004	158,789	104,409	—	—	—	5,374
President, Rocky	2005	317,307	158,108	20,270	—	16,613	—	6,757
Mountain Power	2004	299,544	127,557	83,173	—	17,751	—	7,195
Richard D. Peach	2006	380,456	209,088	248,494	—	—	—	5,704
Senior Vice President and	2005	210,654	153,987	100,368	—	11,406	—	6,844
Chief Financial Officer	2004	200,291	136,150	115,899	—	10,977	—	6,586
Stanley K. Watters	2006	277,671	131,016	88,326	—	—	58,102	2,900
President, Pacific Power	2005	256,875	128,550	20,100	—	8,965	—	3,647
	2004	243,693	130,728	22,544	—	8,865	—	3,593
Matthew Wright (i)	2006	316,545	142,916	2,028,821	—	—	—	4,959
Former Executive	2005	292,481	141,945	151,425	—	15,331	—	6,236
Vice President	2004	253,612	127,527	62,766	—	10,502	—	6,301
Michael J. Pittman (j)	2006	190,909	268,125	1,839,328	—	—	—	5,490
Former Senior	2005	323,750	189,000	20,329	—	33,948	—	6,904
Vice President	2004	313,125	187,500	20,097	—	38,729	—	7,849

(a) Mr. Abel receives no compensation from PacifiCorp or specific compensation from MEHC for his PacifiCorp service. Please refer to MEHC's Annual Report on Form 10-K for the year ended December 31, 2005 (File No. 001-14881) for executive compensation information for Mr. Abel.

(b) May include amounts deferred pursuant to the Compensation Reduction Plan, under which key executives and directors may defer receipt of cash compensation until retirement or a preset future date. Amounts deferred are invested in ScottishPower American Depository Shares or a cash account on which interest is paid at a rate equal to the Moody's Intermediate Corporate Bond Yield for AA-rated Public Utility Bonds.

(c) Salary includes foreign housing benefits paid to Mr. Peach and Mr. Wright. The amounts for Mr. Peach were $8,638 for the year ended March 31, 2006, $64,944 for the year ended March 31, 2005 and $68,513 for the year ended March 31, 2004. The amount for Mr. Wright was $39,380 for the year ended March 31, 2004.

(d) Bonus includes the value of ScottishPower American Depository Shares awarded under the AIP Deferred Share Program for the fiscal year ended March 31, 2005.

(e) Amounts shown for the year ended March 31, 2006, include:

(i) Company contributions to the PacifiCorp Employee Savings and Stock Ownership Plan (the "Savings Plan") of $12,850 for Ms. Johansen, $11,366 for Mr. Haller, $11,259 for Mr. Walje, $7,531 for Mr. Peach, $11,165 for Mr. Watters, $11,258 for Mr. Wright, and $7,240 for Mr. Pittman.

(ii) Portions of premiums on term life insurance policies that PacifiCorp paid in the amounts of $2,344 for Ms. Johansen, $1,088 for Mr. Haller, $1,072 for Mr. Walje, $1,179 for Mr. Peach, $836 for Mr. Watters, $953 for Mr. Wright, and $513 for Mr. Pittman. These benefits are available to all employees.

(iii) Annual vehicle allowances of $9,263 paid to Ms. Johansen, $9,375 paid to each of Messrs. Haller, Walje, Watters, and Wright, $4,800 paid to Mr. Peach and $4,875 paid to Mr. Pittman.

(iv) Retention payments in the amounts of $87,126 to Mr. Haller, $82,703 to Mr. Walje, $62,500 to Mr. Peach, $66,950 to Mr. Watters and $76,323 to Mr. Wright.

(v) Additional international assignment payments of $42,195 to Mr. Peach and $37,868 to Mr. Wright for the year ended March 31, 2006. Also includes international assignee localization payments of $130,289 to Mr. Peach and $12,611 to Mr. Wright for the year ended March 31, 2006.

(vi) Severance benefits, including enhancements related to PacifiCorp's change in control, paid during the year ended, or payable or accrued as of, March 31, 2006, in the amounts of $4,091,066 to Ms. Johansen, $1,880,433 to Mr. Wright and $1,826,700 to Mr. Pittman. Ms. Johansen's and Mr. Wright's amounts include the value of excise tax gross-up payments to be made by PacifiCorp to the Internal Revenue Service on their behalf. ScottishPower reimbursed PacifiCorp for $1,389,937 of Mr. Pittman's benefits.

(f) Represents the dollar value of awards under the ScottishPower LTIP that vested and were distributed to the named officer in the form of ScottishPower American Depository Shares.

(g) Represents the number of ScottishPower American Depository Shares contingently granted in 2006, 2005 and 2004 that can be earned under the terms of the LTIP.

(h) Ms. Johansen resigned as a PacifiCorp executive officer effective March 21, 2006.

(i) Mr. Wright resigned as a PacifiCorp executive officer effective March 21, 2006.

(j) Mr. Pittman resigned as a PacifiCorp executive officer effective September 5, 2005.

Aggregated Option Exercises at March 31, 2006 and Year-End Option Values

The following table sets forth information regarding the aggregate options exercised during the past fiscal year and the option values at March 31, 2006 for each of the named executive officers. All options are for ScottishPower American Depository Shares and include options granted under the PSIP and the ExSOP.

Name	Shares Acquired on Exercise	Value Realized	Number of Securities Underlying Unexercised Options at March 31, 2006		Value of Unexercised In-the-Money Options at March 31, 2006	
			Exercisable	Unexercisable	Exercisable	Unexercisable
Gregory E. Abel	—	$ —	—	—	$ —	$ —
Judith A. Johansen	124,125	1,561,008	—	—	—	—
Andrew P. Haller	19,046	196,042	12,288	—	161,655	—
A. Richard Walje	16,957	282,561	151,359	—	1,274,096	—
Richard D. Peach (a)	41,192	487,765	—	—	—	—
Stanley K. Watters	33,262	364,366	4,350	—	—	—
Matthew Wright (a)	—	—	40,865	—	493,979	
Michael J. Pittman	217,813	1,933,991	25,520	—	—	—

(a) Certain options of Mr. Peach and Mr. Wright are for ScottishPower Ordinary Shares, but are presented as American Depository Shares.

Long-Term Incentive Plan Awards in the Last Fiscal Year

The following table sets forth information regarding awards made in the year ended March 31, 2006 to each named executive officer under the LTIP. Each LTIP award entitles the executive officer to acquire, at no cost, the number of ScottishPower American Depository Shares listed in the table, less any withholding for applicable taxes. An award will only vest if the ScottishPower Remuneration Committee is satisfied that certain performance measures related to the sustained underlying financial performance of the ScottishPower group and improvements in customer service standards are achieved over a period of three years commencing with the fiscal year preceding the date an award is made. The number of shares that vest depend upon ScottishPower's comparative Total Shareholder Return performance over the three-year performance period. Total Shareholder Return performance is measured against a peer group of major international energy companies. No shares vest unless ScottishPower's Total Shareholder Return performance is at least equal to the median performance of the peer group, at which point 40% of the initial award vests. If ScottishPower's performance is equal to or exceeds the top quartile, 100% of the shares vest. The number of shares that vest for performance between these two points is determined on a straight-line basis. Furthermore, the number of vested shares for each award will be prorated to reflect only the portion of the three-year performance period in which PacifiCorp was owned by ScottishPower. Participants may acquire the vested shares at any time after the third anniversary of grant.

Name	Number of Shares, Units or Other Rights	Performance or Other Period Until Maturation or Payout	Estimated Future Payouts Under Non-Stock Price-Based Plans		
			Exercise or Threshold Shares	Target Shares (a)	Maximum Shares (b)
Gregory E. Abel	—	—	—	—	—
Judith A. Johansen	15,839	3 years	—	1,990	4,977
Andrew P. Haller	3,774	3 years	—	474	1,186
A. Richard Walje	5,374	3 years	—	676	1,689
Richard D. Peach	5,704	3 years	—	717	1,792
Stanley K. Watters	2,900	3 years	—	364	911
Matthew Wright	4,959	3 years	—	623	1,558
Michael J. Pittman	5,490	3 years	—	690	1,725

(a) Amount to vest if threshold measures and median Total Shareholder Return performance are achieved.

(b) Maximum number of shares exercisable reflects prorating related to acquisition by MEHC as described above.

Employment Agreements

In September 2003, Ms. Johansen and PacifiCorp executed an employment agreement providing for a base salary of $700,000 and a maximum annual incentive award of 75.0% of base salary. Under the agreement, she was eligible for participation in the LTIP, the ExSOP and the Retirement Plan referred to below, in addition to other benefit plans available for senior-level executives of PacifiCorp. Additionally, Ms. Johansen agreed to standard confidentiality, non-competition and non-solicitation terms. In December 2005, Ms. Johansen signed an amendment to her employment agreement with PacifiCorp and ScottishPower. The amendment:

- Provided for the termination of Ms. Johansen's employment with PacifiCorp and her resignation as an officer and director of PacifiCorp and all affiliates, including ScottishPower, effective immediately following the closing of the sale of PacifiCorp to MEHC;
- Restated her waiver of participation in the PacifiCorp Executive Severance Plan;
- Provided for the cash retention award associated with PacifiCorp's sale to MEHC previously approved by ScottishPower's Remuneration Committee, equal to one times base salary, which was contingent on the closing of PacifiCorp's sale to MEHC and also on Ms. Johansen's continued employment and her satisfactory performance of duties in the period through the sale's closing; Ms. Johansen will receive 80.0% of the retention award within 90 days of the closing of the sale and will receive the remaining 20.0% of the award 365 days from the date of the closing, provided there are no claims by MEHC against ScottishPower related to the sale;
- Modified her AIP terms to reflect a single measurement, PacifiCorp's performance against its budget, and to eliminate pro rata payout, as described above;
- Clarified the respective obligations of PacifiCorp and ScottishPower to her after the termination of her employment;
- Provided that upon termination and assuming compliance by her with the terms of her employment agreement, she would receive severance benefits equal to 12 months of salary, bonus and vehicle allowance, plus enhanced change-in-control benefits under the PacifiCorp Supplemental Executive Retirement Plan;
- Provided for a gross-up payment by PacifiCorp to Ms. Johansen to cover any excise tax payable in connection with separation payments, as well as certain health insurance and other benefits following her employment termination; and
- Added certain customary obligations relating to non-disparagement and conflicts of interest.

In December 2004, Mr. Pittman and PacifiCorp executed an employment agreement providing for a base salary of $325,000 and a maximum annual incentive award of 100.0% of base salary (unless otherwise modified by the Remuneration Committee). Under the agreement, he was eligible for participation in the LTIP, the ExSOP and the Retirement Plan, in addition to other benefit plans available for senior level executives of PacifiCorp. Additionally, Mr. Pittman agreed to standard confidentiality, non-competition and non-solicitation terms.

In October 2005, PacifiCorp entered into a compromise agreement with PHI and Mr. Pittman that superseded Mr. Pittman's employment agreement with PacifiCorp and ScottishPower and documented the terms of his separation from the companies following a ScottishPower corporate restructuring that eliminated his position. Under his employment agreement, Mr. Pittman was entitled to severance benefits equal to 12 months of salary, bonus and vehicle allowance and 6 months of continued health insurance coverage. The Compromise Agreement supplemented those benefits with enhancements generally comparable to those payable under the PacifiCorp Executive Severance Plan for a termination following a change in control of PacifiCorp, including an additional 12 months of salary, bonus and vehicle allowance and health insurance coverage for an additional 18 months. ScottishPower reimbursed PacifiCorp for the cost of the supplemental benefits provided by the compromise agreement.

Mr. Abel's employment agreement with MEHC is described in MEHC's Annual Report on Form 10-K for the year ended December 31, 2005 (File No. 001-14881).

Retention Agreements

In May 2005, PacifiCorp and its Senior Vice President and Chief Financial Officer, Richard D. Peach entered into a retention agreement entitling Mr. Peach to an $80,000 retention bonus on June 1, 2006 if he remains employed at an acceptable level of performance in PacifiCorp's corporate finance department through May 30, 2006 and has developed a succession and risk mitigation plan for his department. If Mr. Peach's employment is terminated involuntarily due to a workforce reduction during the term of the retention agreement, he will receive the full amount of any unpaid retention bonuses.

In August 2005, PacifiCorp's named executive officers (other than Mr. Abel, Ms. Johansen and Mr. Pittman) entered into agreements with ScottishPower for awards under the Transaction Incentive Program, which is a $6.0 million pool created by ScottishPower for retention incentives during the period of completion of ScottishPower's sale of PacifiCorp to MEHC. The agreement signed by each named executive officer provided for a transaction incentive award in an amount equal to the executive officer's base salary (in Mr. Peach's case, this amount was adjusted for his existing retention agreement), payable as follows:

- 25.0% of the award was paid within one month of execution and delivery of the award agreement;
- 50.0% of the award is payable three months after the closing of PacifiCorp's sale to MEHC, provided there are no claims by MEHC against ScottishPower; and
- 25.0% of the award is payable 12 months after the closing, again as long as there are no claims by MEHC against ScottishPower.

Continued employment by PacifiCorp, observance of confidentiality obligations and satisfactory performance in support of the transaction until the sale's completion are conditions to the executive officer's receipt of these payments. Award payments are the obligation of ScottishPower. Ultimate determinations of award eligibility will be made by ScottishPower's Chief Executive Officer, subject to review by its Remuneration Committee.

On May 24, 2006, PacifiCorp entered into certain retention agreements with each of Messrs. Haller and Peach. Under each retention agreement, provided that the executive has not voluntarily resigned or had his employment with PacifiCorp terminated for cause prior to December 31, 2006 for Mr. Haller and November 22, 2006 for Mr. Peach, the executive (i) will be entitled to the same benefits the executive would have been entitled to under PacifiCorp's Supplemental Executive Retirement Plan ("SERP") had the executive terminated his employment during the two-month window period following the first anniversary of a change in control, and (ii) will be entitled, upon any termination on or following the applicable retention date, to the same benefits the executive would have been entitled to under PacifiCorp's Executive Severance Plan had such termination occurred in connection with a material alteration in position or compensation within the 24-month period following a change in control.

Severance Arrangements

PacifiCorp's Executive Severance Plan provides severance benefits to certain executive-level employees who in the past were designated by the PacifiCorp Compensation Committee, but who in the future will be designated by the Chairman of the Board of Directors. The executive officers named in the Summary Compensation Table (other than Mr. Abel and Ms. Johansen) participate in this plan.

Severance benefits are payable by PacifiCorp for voluntary terminations as a result of a certain material alterations in position or compensation that have a detrimental impact on the executive's employment or involuntary terminations (including a PacifiCorp-initiated resignation) for reasons other than cause. Severance payments generally equal one or two times the executive's annual cash compensation, three months of health insurance benefits and outplacement services.

The Executive Severance Plan also provides enhanced severance benefits in the event of certain terminations during the 24-month period following a qualifying change-in-control transaction; with respect to MEHC's acquisition of PacifiCorp, this qualifying period commenced on May 23, 2005. Executives designated by the PacifiCorp Compensation Committee or Chairman, as applicable, are eligible for change-in-control benefits resulting from either a PacifiCorp-initiated termination without cause or a resignation generally within two months after certain material alterations in position or compensation. If qualified for the enhanced severance benefits, an executive would receive severance pay in an amount equal to either two, two and one-half or three times the annual cash compensation of the executive, depending on the level set by the PacifiCorp Compensation Committee or Chairman, as applicable. PacifiCorp is required to make an additional payment to compensate the executive for the effect of any excise tax. The executive would also receive continuation of subsidized health insurance from six to 24 months, depending on length of service, and outplacement services.

Retirement Plans

PacifiCorp has adopted non-contributory defined benefit retirement plans for its employees, other than employees subject to collective bargaining agreements that do not provide for coverage. Certain executive officers, including the executive officers named in the Summary Compensation Table other than Mr. Abel, are also eligible to participate in PacifiCorp's non-qualified SERP. The following description assumes participation in both the Retirement Plan and the SERP. Participants receive benefits at retirement payable for life based on length of service with PacifiCorp and average pay in the 60 consecutive months of highest pay out of the last 120 months, and pay for this purpose would include salary and AIP payments reflected in the Summary Compensation Table above. Benefits are based on 50.0% of final average pay plus 1.0% of final average pay for each year that PacifiCorp meets certain performance goals set for each fiscal year by, in the past, the PacifiCorp Compensation Committee, and now the Chairman of the Board of Directors. The maximum benefit is 65.0% of final average pay. Participants may also elect actuarially equivalent alternative forms of benefits. Retirement benefits are adjusted to reflect social security benefits as well as certain prior employer retirement benefits. Participants are entitled to receive full benefits upon retirement after age 60 with at least 15 years of service. Participants are also entitled to receive reduced benefits upon early retirement after age 55 or after age 50 with at least 15 years of service and five years of participation in the SERP.

The following table shows the estimated annual retirement benefit payable upon retirement at age 60 as of March 31, 2006. Amounts in the table reflect payments from the Retirement Plan and the SERP combined, prior to any offset of projected social security benefits and benefits paid from any prior employer plan.

Estimated Annual Pension at Retirement (a)

	Years of Service (b)			
Final Average Pay at Retirement Date	5	15	25	30
$200,000	$ 43,333	$ 130,000	$ 130,000	$ 130,000
400,000	86,667	260,000	260,000	260,000
600,000	130,000	390,000	390,000	390,000
800,000	173,333	520,000	520,000	520,000
1,000,000	216,667	650,000	650,000	650,000

(a) The benefits shown in this table assume that the individual will remain in the employ of PacifiCorp until retirement at age 60, that the Retirement Plan and the SERP will continue in their present form and that PacifiCorp achieves its performance goals under the SERP in all years.

(b) The number of credited years of service used to compute aggregate benefits under the Retirement Plan and the SERP are five for Ms. Johansen, five for Mr. Haller, 20 for Mr. Walje, 11 for Mr. Peach, 24 for Mr. Watters, 19 for Mr. Wright and 26 for Mr. Pittman.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

All outstanding shares of common stock of PacifiCorp are indirectly owned by MEHC, 666 Grand Avenue, Des Moines, Iowa 50309. MEHC is a consolidated subsidiary of Berkshire Hathaway, which owns approximately 88.2% of MEHC's common stock (86.6% on a diluted basis). The balance of MEHC's common stock is owned by a private investor group comprised of Walter Scott, Jr. (including family members and related entities), David L. Sokol and Gregory E. Abel, PacifiCorp's Chairman and Chief Executive Officer.

Based on a Schedule 13G filed with the SEC on February 15, 2006, CAM North America, LLC, 399 Park Avenue, New York, NY 10022, is the beneficial owner of 38,910 shares, or 5.19%, of PacifiCorp's outstanding 7.48% Series Preferred Stock.

No PacifiCorp executive officers or directors own shares of PacifiCorp's preferred stock or shares of the Class B common stock of Berkshire Hathaway. The following table sets forth certain information as of March 31, 2006 regarding the beneficial ownership of common stock of MEHC and the Class A common stock of Berkshire Hathaway by (i) each of the executive officers named in the Summary Compensation Table under Item 11. Executive Compensation above, (ii) each director of PacifiCorp as detailed under "Item 10. Directors and Executive Officers of the Registrant," and (iii) all executive officers and directors of PacifiCorp as a group.

	MidAmerican Common Stock		Berkshire Hathaway Class A Common Stock	
Beneficial Owner	Number of shares Beneficially Owned (a)	Percentage of Class (a)	Number of shares Beneficially Owned (a)	Percentage of Class (a)(c)
Gregory E. Abel (b)	749,992	1.01%	—	—%
Douglas L. Anderson	—	—	3	*
William J. Fehrman	—	—	—	—
Brent E. Gale	—	—	—	—
Patrick J. Goodman	—	—	2	*
Andrew P. Haller	—	—	—	—
Nolan E. Karras	—	—	—	—
A. Robert Lasich	—	—	—	—
Mark C. Moench	—	—	1	*
Richard D. Peach	—	—	—	—
A. Richard Walje	—	—	—	—
Stanley K. Watters	—	—	—	—
Bruce N. Williams	—	—	—	—
All executive officers and directors as a group (13 persons)	749,992	— 1.01%	6	*

(a) Includes shares as to which the listed beneficial owner is deemed to have the right to acquire beneficial ownership under Rule 13d-3(d) under the Securities Exchange Act, including, among other things, shares which the listed beneficial owner has the right to acquire within 60 days.

(b) Includes options to purchase 649,052 shares of common stock which are exercisable within 60 days. Excludes 10,041 shares reserved for issuance pursuant to a deferred compensation plan.

(c) * Indicates beneficial ownership of less than one percent of all outstanding shares.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS RELATED TRANSACTIONS

According to the terms of Andrew P. Haller's offer letter, PacifiCorp made a $200,000.00 loan to Mr. Haller on May 21, 2001 for the repayment of obligations to his former employer. The loan accrues interest at the annual rate of 4.74%. Mr. Haller has repaid $146,793.50 of the loan amount. The largest outstanding loan balance, including accrued interest, at any time during the year ended March 31, 2006 was $86,206.50 at July 11, 2005. As of March 31, 2006, the outstanding loan balance was $55,016.83, including accrued interest. The remaining balance and interest is payable in one payment of $32,988.56 on June 30, 2006 and one payment of $23,730.98 on June 30, 2007.

See "Item 8. Financial Statements and Supplementary Data – Note 4 – Related-Party Transactions" for other information on related-party transactions.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The ScottishPower Audit Committee retained PricewaterhouseCoopers LLP, independent certified public accountants, as PacifiCorp's independent registered public accounting firm for the year ended March 31, 2006, which was affirmed by the MEHC Audit Committee.

Fees and Pre-Approval Policy

MEHC's Audit Committee has an Audit and Non-Audit Services Pre-Approval Policy (the "Policy") which sets forth the procedures and the conditions pursuant to which services to be performed by the independent registered public accountant are to be pre-approved. Pursuant to the Policy, certain services described in detail in the Policy may be pre-approved on an annual basis together with pre-approved maximum fee levels for such services. The services eligible for annual pre-approval consist of services that would be included under the categories of Audit fees, Audit-related fees and Tax fees below. If not pre-approved on an annual basis, proposed services must otherwise be separately approved prior to being performed by the independent registered public accountant. In addition, any services that receive annual pre-approval but exceed the pre-approved maximum fee level also will require separate approval by the Audit Committee prior to being performed. The PacifiCorp Board of Directors has not adopted any pre-approval policy that is in addition to or different than the MEHC Audit Committee's pre-approval policy.

ScottishPower's Audit Committee used a pre-approval policy for PricewaterhouseCoopers' services and fees. This policy detailed the services that could be provided by the independent registered public accounting firm, and required that where the initial fee value for any services permitted in accordance with the policy exceeded £100,000 (or its United States dollar equivalent), the assignment had to be reviewed and authorized by the Chairman of the ScottishPower Audit Committee with the concurrence of the ScottishPower Finance Director. Any services authorized by the Chairman were reported to the ScottishPower Audit Committee at its next scheduled meeting, and fees paid to the independent registered public accounting firm were reported regularly to the ScottishPower Audit Committee.

The following table presents fees billed by PricewaterhouseCoopers for the years ended March 31, 2006 and 2005.

(Millions of dollars)	Year Ended March 31,			
	2006		2005	
Audit fees	$ 1.4	42.4%	$ 1.4	30.4%
Audit-related fees	0.4	12.2	1.1	23.9
Tax fees	1.4	42.4	2.0	43.5
Other fees	0.1	3.0	0.1	2.2
Total	$ 3.3	100.0%	$ 4.6	100.0%

Audit fees are for the audit and review of PacifiCorp's financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States), including comfort letters, statutory and regulatory audits, consents and services related to SEC matters.

Audit-related fees are for assurance and related services that are related to the audit or review of PacifiCorp's financial statements, including employee benefit plan audits, due diligence services and financial accounting and reporting consultation.

Tax fees are fees for tax compliance services and related costs.

Other fees are mainly for services rendered in connection with requests from state regulatory commissions and for regulatory matters.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a) 1. The list of all financial statements filed as a part of this report is included in Item 8. Financial Statements and Supplementary Data.

2. Schedules:*

* All schedules have been omitted because of the absence of the conditions under which they are required or because the required information is included elsewhere in the financial statements included under "Item 8. Financial Statements and Supplementary Data."

3. Exhibits:

Exhibit Number	Exhibit Title
2.1(a)*	Agreement and Plan of Merger, dated as of December 6, 1998, by and among Scottish Power plc, NA General Partnership, Scottish Power NA 1 Limited and Scottish Power NA 2 Limited. (Exhibit 1 to the Form 6-K, dated December 11, 1998, filed by Scottish Power plc, File No. 1-14676).
2.1(b)*	Amended and Restated Agreement and Plan of Merger, dated as of December 6, 1998, as amended as of January 29, 1999 and February 9, 1999, and amended and restated as of February 23, 1999, by and among New Scottish Power PLC, Scottish Power plc, NA General Partnership and PacifiCorp (Exhibit (2)b, Form 10-K for year ended December 31, 1998, File No. 1-5152).
3.1*	Third Restated Articles of Incorporation of PacifiCorp (Exhibit (3)b, Form 10-K for the year ended December 31, 1996, File No. 1-5152).
3.2	Bylaws of PacifiCorp, as amended May 23, 2005.
4.1*	Mortgage and Deed of Trust dated as of January 9, 1989, between PacifiCorp and JP Morgan Chase Bank (formerly known as The Chase Manhattan Bank), Trustee, Ex. 4-E, Form 8-B, File No. 1-5152, as supplemented and modified by 18 Supplemental Indentures as follows:

Exhibit Number	File Type	File Date	File Number
(4)(b)			33-31861
(4)(a)			1-5152
4(a)	8-K	January 9, 1990	1-5152
4(a)	8-K	September 11, 1991	1-5152
4(a)	8-K	January 7, 1992	1-5152
4(a)	10-Q	Quarter ended March 31, 1992	1-5152
4(a)	10-Q	Quarter ended September 30, 1992	1-5152
4(a)	8-K	April 1, 1993	1-5152
(4)b	10-Q	Quarter ended September 30, 1993	1-5152
(4)b	10-Q	Quarter ended June 30, 1994	1-5152
(4)b	10-K	Year ended December 31, 1994	1-5152
(4)b	10-K	Year ended December 31, 1995	1-5152
4(b)	10-K	Year ended December 31, 1996	1-5152
99(a)	10-K	Year ended December 31, 1998	1-5152
4.1	8-K	November 21, 2001	1-5152
99	10-Q	Quarter ended June 30, 2003	1-5152
4	8-K	September 8, 2003	1-5152
4	8-K	August 24, 2004	1-5152
	8-K	June 13, 2005	1-5152

4.2* Third Restated Articles of Incorporation and Bylaws. See 3.1 and 3.2 above.

In reliance upon item 601(4)(iii) of Regulation S-K, various instruments defining the rights of holders of long-term debt of the Registrant and its subsidiaries are not being filed because the total amount authorized under each such instrument does not exceed 10.0% of the total assets of the Registrant and its subsidiaries on a consolidated basis. The Registrant hereby agrees to furnish a copy of any such instrument to the Commission upon request.

10.1* Judith Johansen Employment Agreement (Exhibit 10.3, Annual Report on Form 10-K, filed May 27, 2005, File No. 1-5152).

10.2* Amendment No. 1 to Employment Agreement among PacifiCorp, Scottish Power plc and Judith Johansen, dated as of December 20, 2005 (Exhibit 10, Current Report on Form 8-K, filed December 23, 2005, File No. 1-5152).

10.3* Compensation Reduction Plan (Exhibit 10.5, Annual Report on Form 10-K, filed May 27, 2005, File No. 1-5152).

10.4* Amendment No. 1 to PacifiCorp Compensation Reduction Plan, dated effective July 1, 2003 (Exhibit 10.2, Quarterly Report on Form 10-Q, filed November 10, 2005, File No. 1-5152).

10.5* Amendment No. 2 to PacifiCorp Compensation Reduction Plan, dated effective September 20, 2005 (Exhibit 10.3, Quarterly Report on Form 10-Q, filed November 10, 2005, File No. 1-5152).

10.6* Executive Severance Plan (Exhibit 10.3, Current Report on Form 8-K, filed May 6, 2005, File No. 1-5152).

10.7* Amendment to PacifiCorp Executive Severance Plan, dated effective October 31, 2005. (Exhibit 10.2, Quarterly Report on Form 10-Q, filed February 14, 2006, File No. 1-5152).

10.8* Supplemental Executive Retirement Plan (Exhibit 10.7, Annual Report on Form 10-K, filed May 27, 2005, File No. 1-5152).

10.9* Richard Peach Retention Agreement (Exhibit 10.4, Current Report on Form 8-K, filed May 6, 2005, File No. 1-5152).

10.10* Andrew Haller Promissory Note (Exhibit 10.11, Annual Report on Form 10-K, filed May 27, 2005, File No. 1-5152).

10.11* Form of Transaction Incentive Program Award Agreement for Named Executive Officers (Exhibit 10, Current Report on Form 8-K, filed September 1, 2005, File No. 1-5152).

10.12* Michael Pittman Employment Agreement (Exhibit 10.4, Annual Report on Form 10-K, filed May 27, 2005, File No. 1-5152).

10.13* Compromise Agreement among PacifiCorp, PacifiCorp Holdings, Inc. and Michael J. Pittman, dated October 4, 2005 (Exhibit 10.4, Quarterly Report on Form 10-Q, filed November 10, 2005, File No. 1-5152).

10.14 Andrew Haller Retention Agreement.

10.15 Richard Peach Retention Agreement.

12.1	Statements of Computation of Ratio of Earnings to Fixed Charges.
12.2	Statements of Computation of Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends.
23	Consent of PricewaterhouseCoopers LLP.
24	Power of Attorney.
31.1	Section 302 Certification of Principal Executive Officer Pursuant to Rule 13a-14(a)/15d-14(a).
31.2	Section 302 Certification of Principal Financial Officer Pursuant to Rule 13a-14(a)/15d-14(a).
32.1	Section 906 Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350.
32.2	Section 906 Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350.
99.1*	Stock Purchase Agreement among Scottish Power plc, PacifiCorp Holdings, Inc. and MidAmerican Energy Holdings Company (Exhibit 99.1, Current Report on Form 8-K, filed May 24, 2005, by MidAmerican Energy Holdings Company, File No. 001-14881).
99.2*	Amendment No. 1 to Stock Purchase Agreement, dated as of March 21, 2006, by and among Scottish Power plc, PacifiCorp Holdings, Inc. and PPW Holdings LLC (as successor-in-interest to MidAmerican Energy Holdings Company) (Exhibit 10.1, Current Report on Form 8-K, filed March 21, 2006, by MidAmerican Energy Holdings Company, File No. 001-14881).

* Incorporated herein by reference.

(b) See (a) 3. above.

(c) See (a) 2. above.

SIGNATURES

PURSUANT TO THE REQUIREMENTS OF SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934, THE REGISTRANT HAS DULY CAUSED THIS REPORT TO BE SIGNED ON ITS BEHALF BY THE UNDERSIGNED THEREUNTO DULY AUTHORIZED.

PacifiCorp

By: /s/ GREGORY E. ABEL

Gregory E. Abel
(CHIEF EXECUTIVE OFFICER)

Date: May 26, 2006

PURSUANT TO THE REQUIREMENTS OF THE SECURITIES EXCHANGE ACT OF 1934, THIS REPORT HAS BEEN SIGNED BELOW BY THE FOLLOWING PERSONS ON BEHALF OF THE REGISTRANT AND IN THE CAPACITIES AND ON THE DATES INDICATED.

SIGNATURE	TITLE	DATE
/s/ GREGORY E. ABEL Gregory E. Abel	Chairman of the Board of Directors And Chief Executive Officer	May 26, 2006
/s/ RICHARD D. PEACH Richard D. Peach	Senior Vice President, Chief Financial Officer and Director	May 26, 2006
* DOUGLAS L. ANDERSON Douglas L. Anderson	)	
* WILLIAM J. FEHRMAN William J. Fehrman	)	
* BRENT E. GALE Brent E. Gale	)Director	May 26, 2006
* PATRICK J. GOODMAN Patrick J. Goodman	)	
/s/ ANDREW P. HALLER Andrew P. Haller	)	

* NOLAN E. KARRAS	)	
Nolan E. Karras	)	
	)	
* A. ROBERT LASICH	)	
A. Robert Lasich	)	
	)	
* MARK C. MOENCH	)Director	May 26, 2006
Mark C. Moench	)	
	)	
* A. RICHARD WALJE	)	
A. Richard Walje	)	
	)	
* STANLEY K. WATTERS	)	
Stanley K. Watters	)	

*By: /s/ RICHARD D. PEACH

Richard D. Peach, as
Attorney-in-Fact