BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON

UE ____

In the Matter of PacifiCorp's Filing of Revised Tariff Schedules

PACIFICORP'S TRIAL BRIEF

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Pursuant to ORS 757.205 and ORS 757.220, PacifiCorp (the "Company") is filing revised tariff schedules to set its rates to produce revenues necessary to sustain a stable, reliable and low-cost power supply while preserving the Company's ability to attract capital for future investments in system infrastructure. This case is based on a normalized future test year ending December 31, 2007 (the "Test Period"). The Company files this trial brief to fulfill the requirements of OAR 860-013-0075.

1.

PacifiCorp is an electric public utility in the state of Oregon, within the meaning of ORS 757.005(1)(a)(A), and is subject to the Commission's jurisdiction with respect to its prices and terms of electric service to retail customers in Oregon. PacifiCorp provides electric service to approximately 535,300 retail customers in the state of Oregon. Its principal place of business is located in Portland, Oregon.

2.

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3.

The Company requests a revenue requirement increase of approximately $112 million based on the forecasted results of operations for the Test Period. This request incorporates the applicable provisions of the Stipulation, dated December 23, 2005, adopted in Docket No. UM 1209. These adjustments, which are associated with the acquisition of PacifiCorp by MidAmerican Holdings Company, Inc. ("MEHC"), have the effect of reducing the Company's revenue requirement and the size of the proposed rate increase. The Company's revenue requirement includes the effects of the Company's recent capital investments, rising net power costs and increasing maintenance expenses associated with the Company's low-cost but aging generation fleet. The Company's request also addresses the need for a reasonable return on equity ("ROE") that is high enough to preserve the Company's ability to borrow money at reasonable rates to finance future investments in the Company's power supply and delivery infrastructure. The proposed rate adjustment constitutes an average overall price increase of 13.2 percent in base rates. Even with this requested rate increase, however, the Company's Oregon customers will continue to benefit from some of the lowest electricity rates in the nation.

4.

Like most utilities at this time, PacifiCorp continues to face cost pressures driven by external factors, such as demands for capital investment, higher net power costs and rising operation, maintenance, administrative and general ("OMAG") expenses. The Company has invested over $754 million in new capital improvements since the Company's last rate filing, including investments that will reduce emissions and improve the efficiency of existing generation resources. The current level of total net power costs for the Company, which are

$864 million, reflects the expiration of certain contracts, higher natural gas and coal prices and the addition of more renewable energy to the Company's purchased power portfolio. A significant factor in the increase of OMAG expenses is the rising cost of maintaining the Company's aging fleet of low-cost power plants.

5.

Despite an exceptional record of responsive customer service and electricity rates that are among the lowest in the nation, PacifiCorp's financial performance continues to lag behind the majority of investor-owned utilities in the United States. Indeed, rising prices and recent regulatory developments (such as SB 408) have combined to further exacerbate the Company's unsatisfactory financial performance. ORS 756.040(1) requires the Commission to balance the interests of the consumer and the utility investor by establishing rates sufficient to allow the Company to earn a return that will ensure confidence in the Company's financial integrity, maintain its current credit and attract capital. The Company's declining financial performance has been reflected in a recent credit downgrade. Specifically, Fitch Ratings recently downgraded PacifiCorp's credit rating from 'A-' to 'BBB+' for senior unsecured debt based upon the negative outcome of PacifiCorp's last Oregon rate case.

The Company's projected normalized results of operations for the Test Period demonstrate that, at current rate levels, the Company would earn an overall ROE in its Oregon service territory of 5.958 percent. This is far below the ROE currently authorized by the Commission, much less the 11.5 percent ROE required to ensure ongoing confidence in the Company's financial integrity and sustain its current credit rating. Until the Commission acts to improve the Company's financial performance, the Company's ability to finance its capital investments at a reasonable cost will remain in jeopardy.

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6.

In UE 170, the Commission adopted a Transition Adjustment Mechanism ("TAM") that was designed to streamline and facilitate Direct Access for large customers. The Company's proposed Transition Adjustment is the difference between the market value of the energy that would have been required to serve direct access customers and the cost of service rate for those customers' individual tariff schedule. The new rates from UE 170 went into effect in October 2005, and the Company was able to incorporate them into the TAM, which was filed in November 2005, for an effective date of January 1, 2005. This case presents a different set of circumstances because the Company's proposed effective date for rates in this proceeding (December 23, 2006) will occur *after* the Company's November 2006 TAM filing. The Company believes that it would be preferable to coordinate the net power cost determinations in this proceeding with the results of the TAM proceeding. Accordingly, the Company proposes the Commission bifurcate the power cost aspects of this case and consolidate this part of the case with the TAM. In this manner, the Commission can ensure that its TAM is based upon the most current and comprehensive information available and that the TAM is consistent with the rates that will be set in this case

7.

The Company filed this rate application using the methodology mandated by the Commission's current administrative rule, OAR 860-027-0048, which requires calculation of tax expenses on a stand-alone basis for ratemaking purposes. This methodology is consistent with PacifiCorp's previous rate filings and most accurately reflects the Company's actual taxable income as computed and reported to the IRS. Moreover, use of the stand-alone methodology in this filing also reduces potential confusion in light of the Commission's

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decision to grant reconsideration and rehearing regarding the UE 170 tax adjustment, as well as the fact that final rules regarding SB 408 have not been adopted.

8.

The resolution of the special contract rates for the Company's Klamath irrigators is subject to an ongoing rate proceeding that continues under Docket No. UE 170. In the absence of resolution on this issue, the Company has assumed that these irrigation customers would continue to receive special contract rates. The Company has, however, changed its approach to allocation of the cost of the Klamath irrigators' rate subsidy to better reflect the nature of this cost. Instead of allocating these costs on a system basis, this filing reflects a situs allocation of these costs.

9.

As noted above, the Company has incorporated in this case certain provisions of the Stipulation, dated December 23, 2005, in Docket No. UM 1209. In compliance with the obligations of the Stipulation, this filing contains the relevant pro forma adjustments, resulting in a reduction in Oregon revenue requirement of approximately $6.3 million. These adjustments are contingent upon the Commission's approval of the UM 1209 Stipulation and the successful close of the MEHC transaction.

10.

In accordance with ORS 757.220, PacifiCorp's revised tariff schedules contain an effective date of December 23, 2006.

11.

PacifiCorp's direct case for this filing consists of the testimony and exhibits of the following witnesses:

Andrew N. MacRitchie, Executive Vice President, Strategy, Regulatory and External Affairs, presents an overview of the Company's filing and establishes the

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context of the case for the witnesses who will testify regarding the Company's specific proposals.

Samuel C. Hadaway, a Principal of FINANCO, Inc., Financial Analysis Consultants, will testify concerning the Company's proposed ROE. Based on a combination of Discounted Cash Flow and Risk Premium analyses, as well as a review of the current market, the electric utility industry, and Company-specific factors, Dr. Hadaway proposes a point value for PacifiCorp's cost of equity of 11.5 percent.

Bruce N. Williams, Treasurer, will testify concerning the Company's capital structure of 46.2 percent long-term debt, 1.0 percent preferred stock and 52.8 percent common equity. Mr. Williams will explain the need to increase the equity component to help sustain the Company's credit rating. He will also show the Company's embedded cost of long-term debt to be 6.37 percent and its embedded cost of preferred stock to be 6.54 percent.

Reed C. Davis, Director of Planning, Load and Revenue Forecasting, will testify concerning the methodology for forecasting the number of customers and average use per customer for each customer class. The results of this forecast form the basis for calculations of forecasted revenues, revenue requirement, cost of service and net power costs.

Mark T. Widmer, Director, Net Power Costs, will testify concerning the operation of the GRID model, the calculation of the Company's total net power costs and the allocation of these costs to Oregon. Mr. Widmer will also identify the major drivers of net power costs.

Mark R. Tallman, Managing Director of Commercial and Trading, will testify concerning the Company's recent supply-side resource portfolio acquisitions,

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including the completion of Phase II of the Currant Creek project and the Wolverine Creek wind energy purchased power agreement.

Daniel J. Rosborough, Director of Employee Benefits, will testify concerning the Company's increased pension and employee benefit costs and the Company's procedures for controlling these costs. Mr. Rosborough will also show that the Company's plans are competitive compared to other utilities.

Barry G. Cunningham, Senior Vice President of Generation, will explain the reason for and prudence of the increased generation related overhaul and maintenance expenses for the Test Period. He will also discuss the prudence of the Huntington 2 scrubber.

Paul M. Wrigley, Regulation Manager, will present the Company's overall revenue requirement based on the forecasted results of operations for the Test Period. Mr. Wrigley will present the normalizing adjustments to actual test period costs related to revenue, operation and maintenance expenses, net power costs, depreciation and amortization, taxes and rate base.

Karl D. Anderberg, Manager, Cost of Service, sponsors the Company's testimony describing in detail the class cost of service and functional revenue requirement.

William R. Griffith, Director of Pricing and Operations, will testify concerning three primary areas: (1) the Company's pricing objectives; (2) the Company's proposed rate spread; and (3) the Company's proposed changes in price design for the affected rate schedules.

13.

Pursuant to OAR 860-13-0075, the following exhibits are attached:

(a) Exhibit A: Information required by OAR 860-13-0075(1)(c)(A)-(F);

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(b) Exhibit B: Mr. Wrigley's PPL Exhibit 901 Page 1.1, which shows the results of operations before and after the proposed price change, as required by OAR 860-13-0075(1)(c)(G); and,

(c) Exhibit C: Mr. Griffith's PPL Exhibit 1102-1, which shows the net effect of the proposed price change on each class of customers, as required by OAR 860-13-0075(1)(c)(H).

DATED: February 23, 2006.

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EXHIBIT A

INFORMATION REQUESTED BY OAR 860-13-0075 (1) (c) (A) – (F)

A. The dollar amount of total revenues that would be collected under the proposed rates is $957,808,148.

B. The dollar amount of change in revenues requested, total and net of any credit from federal agencies:

   (a) Total - $111,976,802

   (b) Net - $111,976,802

C. The percentage change in revenues requested, total and net of any credits from federal agencies:

   (a) Total – 13.3 percent

   (b) Net – 14.2 percent

D. The accounting period relied upon for costing purposes is the twelve-month period ending December 31, 2007.

E. The Company estimated that the proposed rates will produce an overall rate of return of approximately 9.081 percent and an implicit return on common equity of 11.5 percent.

F. The rate base proposed for purposes of this filing is $2,302,198,746.