

9. Recommended Plan Two

The requirement to permanently assign certain resources to Oregon is expected to result in a loss of the benefits of the operation of the Company's generation portfolio as a single integrated system. For this reason and to further the Resource Plan objectives that were developed in the public process, PacifiCorp has proposed a second recommended plan. This plan contemplates the structural separation of PacifiCorp's generation resources, coupled with the establishment of specific generation contracts for each state. PacifiCorp believes that this plan appears to be the best approach for accomplishment of the objectives of SB 1149 while preserving the benefits of the system for all states.

A. Overview

Implementation of the contracts associated with Recommended Plan Two requires a corporate restructuring resulting in state-specific electric companies contracting for supply from a single generation company, renamed PacifiCorp Generation Company. It also requires establishment of a service company to prevent unnecessary duplication of functions and assets that are currently allocated among the jurisdictions without controversy.

The Company made an initial filing in five of its jurisdictions simultaneously with this filing providing an overview of the corporate restructuring proposal. The Company deferred the filing in California pending approval of the proposed sale of the Company's service territory there. Workshops will be held in upcoming weeks in all states to solicit input. PacifiCorp will file additional details after the first of the year and continue to work with all interested parties to clarify the details.

B. Generation Contract Principles

The Company believes that the following principles are appropriate for guiding the development of the generation contract:

- Each contract should initially require the provision of an amount of capacity and energy approximately equal to the present requirements of retail customers in the state served by the electric company, with such amount declining over time to reflect the retirement of the Company's existing resources.
- Each contract should provide the state electric company with the option to meet its load growth requirements as it sees fit, but, at least initially, require PacifiCorp Generation Company to be a "supplier of last resort" at the then-prevailing market price.

- The initial contract price should generally reflect the level of power costs and system efficiencies that would pertain in the absence of the restructuring, including the economic benefits and costs associated with existing long-term wholesale contracts.
- The initial contract price should afford PacifiCorp Generation Company with a reasonable opportunity to recover its full costs of providing service.
- The contract price should increase or decrease going forward in a manner that reasonably reflects changes in the cost of owning and operating generating resources comparable to those currently serving the Company's retail customers.
- Each contract should provide PacifiCorp Generation Company with incentives to maximize efficiency.
- Each contract should clarify roles and responsibilities for providing new generation to cover load growth.
- Each contract should provide flexibility for dealing with industry restructuring/direct access initiatives to the extent a state wishes to pursue such initiatives, while insulating customers in other states or a subset of customers in the same state from the consequences of policy decisions that are made.

Although additional discussions and analysis are needed, the Company believes that the elements of Recommended Plan Two offer real opportunity for a constructive path forward in all of the Company's jurisdictions. The use of a contract provides greater opportunity to balance the interests and policy goals of each state as compared to the permanent assignment of a share of resources to Oregon. Additional information on the proposed restructuring is contained in a separate, concurrent filing with the Oregon Commission that includes policy testimony, implementation testimony, and illustrative transfer agreements.