12. Other Considerations

A. Reliability and back-up resources

Reliability and availability of back-up resources under the Resource Plan will be no less than the current PacifiCorp integrated system. Dispatchers will ensure that adequate reserves and other ancillary services are scheduled. In the past, Oregon has been operated as an integrated part of the PacifiCorp system and energy and capacity of all resources was shared among states. Fixed and variable costs of operation were divided among the states based on each state's use of capacity and energy from the portfolio. Oregon customers will continue to be supplied from the integrated system operated by PacifiCorp and coordinated by the Western System Coordinating Council. Implementation of Recommended Plan One and the Fixed Modified Accord plan described in this document assume that Oregon cost-of-service customer load, for rate-making purposes, will operate as a separate system.

B. Sensitivities

The primary driver for plant valuations is the market clearing price and sensitivities to market clearing price projections were tested for each plant. Market clearing price scenarios were:

- $2.00/mmBTU gas price
- $3.00/mmBTU gas price
- NW Power Planning Council MCP (March 2000)

Most market clearing price forecasts agree that natural gas fired combined cycle generating units will establish the market clearing price during the next ten years. Consequently, the future price of electricity depends on one's view of the natural gas price forecast and, in particular, the long run cost of producing natural gas to meet the growing market. The selected range of natural gas prices is believed to bracket the range of most likely long term natural gas prices. Market clearing prices in the $2.00/mmBTU case did not generate sufficient revenues at all plants to justify the installation of BACT environmental equipment. For purposes of modeling these sensitivities, plants were closed in 2007-2008 if the revenues could not support the installation of the environmental equipment. This simplifying assumption does not take into consideration increases in market clearing price that would inevitably occur if a significant number of coal-fired plants were closed. A detailed analysis of the economics of each plant is required to draw substantive conclusions about the viability of installing additional environmental equipment in the future. Such an analysis is beyond the scope and of this Resource Plan.

No sensitivities were modeled for a carbon tax. The timing and form of a carbon tax is not predictable. Any attempt to model a carbon tax would be very speculative. However, the resource plan economic model assumes installation of environmental equipment on all coal-fired plants by 2013 to meet current BACT. The estimated capital expenditures and operating expenditures for this equipment provide a surrogate for future costs that will result from potential environmental legislation.

C. Incentives.

SB 1149 provides authority for the Commission to provide incentives for structural separation of generation assets:

> "Whereas the divestiture or functional separation of electrical power generation from the distribution functions is the most effective means of stimulating competition, providing depth and liquidity to the wholesale market and facilitating the transition to a fully competitive market by alleviating horizontal and vertical monopoly market power and providing a more accurate estimation and mitigation of stranded costs." [SB 1149, Preamble]
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> "The Commission may provide incentives for divestiture to unaffiliated persons of the generation assets of an electric company, or the structural separation of such assets. The Commission shall ensure that divestiture does not deprive customers of the benefit of the utility's or the region's low-cost resources, independent of the power supplier." (SB 1149, Section (6)(2))

In recognition of these directives, PacifiCorp proposes it receive up to 6% of the gross fair market value of its Oregon generating assets as an incentive with respect to implementation of the Resource Plan. PacifiCorp will provide additional details of the proposed incentive when it offers its proposal for disposition of assets assigned to direct access customers, but offers the following proposal to initiate discussions:

3% of the gross fair market value of all generating assets assigned to Oregon customers, for initiation of a structural separation of all its generation assets from its distribution assets by December 31, 2000.

3% of gross fair market value of all generating assets assigned to Oregon customers, for the successful implementation of a structural separation of all of its generating assets from its distribution assets.

D. Deferred Taxes

PacifiCorp has recorded in its financial statements, pursuant to prior commission orders and Statement of Financial Accounting Standards No. 71 (SFAS 71), nearly $400 million of generation-related regulatory assets. These assets primarily represent the obligation of PacifiCorp's customers for future tax payments that will be required to be paid associated with prior regulatory treatment of tax depreciation on generation plant. The indicative valuation and revenue requirement analysis assume that the Oregon customers fulfill their deferred tax obligation. Consistent with the methodology accepted by the Oregon Commission in its approval of the sale of the Centralia Plant, the Company will "collect" the tax obligation from customers in its calculation of net proceeds from any sale of a resource.

Further, Generally Accepted Accounting Principles (GAAP) requires that Company's with regulatory assets under SFAS 71 "de-recognize" the recording of these regulatory assets: "...when deregulation legislation is pursued or when a rate order...that contains sufficient detail for the enterprise to reasonably determine how the transition plan will effect the separable portions of its business whose pricing is being de-regulated is issued, the enterprise shall stop applying Statement 71 to that separable portion of its business." (Emerging Issues Task Force 97-4)

SB 1149 and the Commission's rules are not sufficiently detailed with respect to the impacts of the intended deregulation of portions of PacifiCorp's business in Oregon. Future commission orders may further clarify whether or not PacifiCorp can continue to record in its financial statements SFAS 71 regulatory assets. The Company believes that SB 1149 provides for the full recovery of regulatory assets. The Company and its stakeholders must work together to ensure that the tax obligation of customers that currently exists is appropriately valued and recovered by the Company, regardless of the GAAP accounting required on the Company's financial statements.

Appendix F includes generating resource tax information required by the Resource Plan rule.