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Memo

To: PacifiCorp Audit Files – FY05

From: Steve Krump

Date: March 9, 2005

Subject: Key assumptions for December 31, 2004 measurement date

PacifiCorp has a fiscal year-end of March 31, while the annual FAS 87 and FAS 106 measurement date for the benefit plans is based on a December 31 calendar year-end.

The discount rate selected (for measurement of the FAS 87 pension and FAS 106 other post-retirement benefit obligations) is applied annually across all of the PacifiCorp Benefit and Welfare plans. Note that this approach is consistent with prior year and considered reasonable based on the fact that the maturity profile of obligations/demographics within each separate pension plan are consistent with each other so as to allow for a single/global discount rate. The plans considered are included in Appendix B.

Following its most recent review, a single discount rate of 5.75% has been selected, which represents a 50 basis point decline from prior year. Refer to management's analysis on the discount rate selected, as well as their rationale for other key assumptions (i.e. mortality table and return on assets) included in Appendix C.

We have considered whether the discount rate proposed by management is reasonable and in compliance with the requirements of FAS 87/106. In forming our view we have considered the guidelines set out in PwC R&Q alert 05/09, relevant guidance in FAS 87/106, as well as discussions with Patrick Gabel, PwC GHRS.

We have also considered the reasonableness of managements support for its mortality assumptions and the rate of return used on plan assets.

Our findings in respect of these three areas are set out in the table below.

PRICEWATERHOUSECOOPERS

Ref	Factor to consider	Findings
1	Per R&Q Alert 05/09 and in accordance with the provisions of FAS 87 and FAS 106, assumed discount rates should reflect the rates at which an amount that is invested in a portfolio of high-quality debt instruments on the measurement date would provide the future cash flows necessary to pay benefits when they come due. Rates on high-quality corporate bonds (i.e., with a rating of Aa or better from a recognized ratings agency) as of December 31, 2004 are lower than rates were one year ago, based on published bond indexes presented in the table below.	Based on our understanding of the PacifiCorp benefit plan profile (active vs. non-active employees) through discussions with management and Hewitt, there has not been a significant change year on year. As further support for this view, we note that the current investment portfolio (which is maintained in part to support the schemes active versus non-active split) remains relatively consistent year on year: 55% Public equity** 10% Private equity** 35% Bonds (fixed income) (** dependent upon market value changes, the investment allocation to both public and private equity has a range of +/- 4%, however the total investment in equity does not exceed 65%) *(Based on discussions with Mahendra Shah)* As the maturity profile of its obligations has not changed significantly, we would expect to see a degree of consistency, year on year, in the discount rate adopted relative to market data. In order to assess its reasonableness, we have reviewed the discount rate applied by PacifiCorp against several external reference points. The table in **Appendix A** summarizes the results of this analysis. We note the following: 1) Previously, PacifiCorp was 7 basis points **above** the Moody's Aa Public Utilities rate. At the current measurement date they are equivalent. 2) The Moody's Aa Public Utility rate has fallen 43 basis points against a 50 basis point fall in the PacifiCorp rate. 3) The average rate of decline in rates on the sample of indices provided by PwC national office is 35 basis points. *Consistent with prior years, PwC notes that whist not looking to match to the rate PacifiCorp does reference Moody's Aa Public Utilities rate as a benchmark. To this extent we note that the Moody's Aa utilities index has been prepared at semi-annual rates, rather than annualized rates. The index at December 31, 2004 of 5.75% would convert to an annualized rate of approximately 5.83% (prior year 6.18% would convert to an annualized rate of 6.28%).*

PRICEWATERHOUSECOOPERS

Ref	Factor to consider	Findings
2	The best estimate of the discount rate should generally be based on non-callable high quality bonds (ie. Aa rated or better)	Management has benchmarked its proposed rate against available market data (supplied by Hewitt – **See Appendix D**). Information obtained from Hewitt indicates the following: For a population of 110 Hewitt clients: 1) The average decline in rates since 12/31/2003 is 35 basis points. 2) 38 companies show a reduction in rates year on year of 50 basis points. 3) 63 companies have selected a discount rate of 5.75%. 4) 34 companies have moved from a rate of 6.25% in the prior year to 5.75% in the current year. (We note that the data provided by Hewitt may be pre-external audit and we have not reviewed for accuracy).
3	SEC provided guidance in 1994 as follows: a) Callable bonds should not be used to determine the discount rate. b) The yield on a single bond whose duration is equal to the benefits duration should not be used. c) An average in lower quality bonds should not be used.	Hewitt confirmed that it is customary practice to adhere to the criteria set out in the SEC guidance. Additionally, they confirmed that the Hewitt yield curve has been developed by using a basket of high quality Aa non-callable bonds.
4	The Citigroup Pension Discount Rate Curve (formerly Solomon Brothers) was developed specifically to meet the criteria set forth in paragraph 186 of FAS 106. This published curve includes bond yields by year of maturity as well as the rate shown in Appendix A which illustrates the yield based on the duration of the benefit payments of a typical, large, mature pension plan.	The disparity between the PacifiCorp rate and the Citigroup rate continues to decrease (25 basis points in the prior year compared to 7 basis points in the current year).
5	Per R&Q Alert 05/09, engagement teams should ensure, as part of the audit, that clients have adequate documented support for mortality assumptions and other non-disclosed demographic assumptions. In particular, engagement teams should ensure that current mortality tables are being used, unless (1) the company can demonstrate through an analysis of actual experience the need for higher mortality rates that may be reflected in older tables, or (2) actuarial adjustments are made to the older tables to reflect trends towards lower mortality rates.	As noted in the client's memo included in Appendix C, PacifiCorp has decided to continue using the 1983 Group Annuity Mortality ("83 GAM") Table for the December 31, 2004 measurement date. From discussions with Hewitt, we understand that actual mortality experience supports continued use of 83 GAM. The actuary has also asserted that the PacifiCorp employee base demographic is such that continued use of the 83 GAM table at this stage is not unreasonable.

PRICEWATERHOUSECOOPERS

Ref	Factor to consider	Findings
6	Per FAS 87/106, the expected long-term rate of return on plan assets shall reflect the average rate of earnings expected on the existing assets that qualify as plan assets and contributions to the plan expected to be made during the period. In estimating that rate, appropriate consideration should be given to the returns being earned on the plan assets currently invested and the rates of return expected to be available for reinvestment.	Based on review of the Company's assessment included in Appendix C, it appears that return on plan assets has been appropriately considered against the requirements outlined in the guidance.

Conclusion

Based on the above, the key assumptions selected by management (discount rate, mortality assumptions, and return on plan assets) appear reasonable and have been determined on a basis that is consistent with the requirements of FAS 87 and FAS106 and also SEC (1994) guidelines.

PRICEWATERHOUSECOOPERS

Appendix A

	December 31, 2004 / %	December 31, 2003 / %
Moody's Aa	5.66%	6.01%
Merrill Lynch 15+	5.55%	5.97%
Merrill Lynch 10+	5.52%	5.81%
Citigroup Pension Discount curve (formerly Solomon Brothers)*	5.68%	6.00%
Moody's Aa bonds – Public Utilities	5.75%	6.18%
PacifiCorp discount rate	5.75%	6.25%

(note: the Solomon Brothers curve was specifically developed to meet the criteria set forth in FAS 106 paragraph 186)*

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Appendix B

PacifiCorp Benefit Plans included in scope of paper:

PacifiCorp Supplemental Executive Retirement Plan
PacifiCorp Retirement plan
Post Retirement Life Insurance
Medical Plan
Energy West Union Plan
Postretirement Welfare Benefits Plan : PacifiCorp
: Energy West Non-union