

# PACIFICORP Corporate Realignment Report

## Utah Legislature

— November 13, 2024 —



# PacifiCorp Corporate Realignment Report to Utah Legislature

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# Introduction

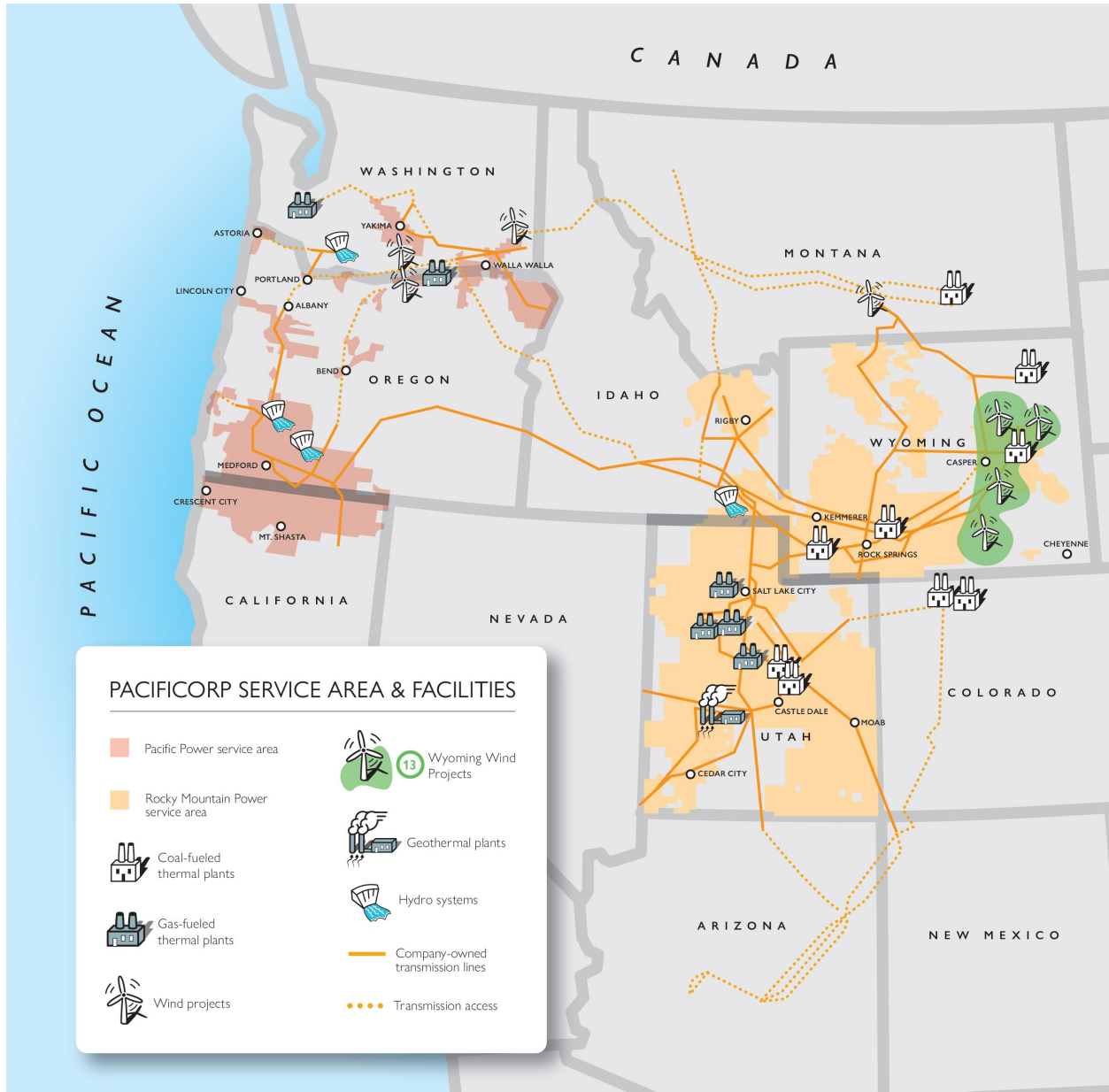
On August 30, 2024, Utah Governor Spencer J. Cox, Senate President J. Stuart Adams, House Speaker Mike Schultz and the Utah Legislature requested that PacifiCorp, d/b/a Rocky Mountain Power and Pacific Power, provide a high-level report outlining the options, challenges and opportunities associated with a potential corporate realignment of the utility. The Utah Legislature requested the report to identify the type of analysis required for more detailed study of the economic, regulatory, legal, financial, and operational issues associated with a potential corporate realignment.

PacifiCorp is a vertically integrated electric utility serving approximately 2.1 million customers in six states. As a vertically integrated utility, PacifiCorp owns distribution lines to connect customers, transmission lines to transport energy from generation resources to the distribution system, and a combination of owned generation resources and power purchase agreements with third parties to produce the energy needed to serve customers. PacifiCorp owns and operates the largest privately held transmission grid in the Western U.S., with 17,100 miles of transmission lines across 10 western states, and owns and operates a diverse portfolio of generation resources in eight states totaling 10,833 megawatts, comprised of coal, natural gas, hydroelectric, geothermal and the largest owned wind fleet by a regulated utility in the Western U.S.

PacifiCorp operates as an integrated multistate electric utility to benefit customers across its six-state service area and the West. PacifiCorp delivers electricity to customers in Utah, Wyoming, and Idaho under the regional brand Rocky Mountain Power and to customers in Oregon, Washington, and California under the regional brand Pacific Power. PacifiCorp's expansive geographic footprint and transmission system enable the development of a diverse portfolio of low-cost generating resources that are used to reliably serve its customers, while maintaining rates well below national and regional averages.

While corporate realignment could take many different forms, each requiring extensive investigation prior to execution on a preferred option, all options involve some degree of restructuring of the vertically integrated utility assets and operations into smaller sub-components. This could consist of restructuring into two or more smaller vertically integrated utilities in smaller geographic footprints (e.g., by region or by state), restructuring different layers of the utility into separate functions (e.g., transmission, distribution and generation), or a combination of both geographic and functional disaggregation (e.g., region-specific distribution and generation utilities with a single independent transmission company). Depending on the objectives of corporate realignment, any approach will provide both benefits and risks. Benefits may include the potential for more closely aligning planning and investments with a narrower set of policy objectives, providing customers with more control over their respective utility's planning and decision-making processes and providing additional legal and financial barriers between entities in the event adverse events occur in another disaggregated entity. Potential risks may include reduced financial and operational efficiencies, as well as an increased risk that unanticipated costs within one of the smaller entities will have a significantly larger impact on its smaller subset of customers than if shared across a larger pool.

Corporate realignment must balance the interests of employees, customers and investors, while complying with state energy policies, allowing utilities the opportunity to recover their costs and earn a fair return to ensure the long-term safety and health of the communities the utilities serve. For example, affordability for customers is an important consideration, while maintaining reliable power and the ability to meet growing demand for electricity consistent with state energy policy objectives. Meeting these customer objectives requires ongoing access to significant capital to fund the extensive obligations of operating, maintaining and expanding the electric infrastructure needed to serve PacifiCorp’s 2.1 million existing and future customers.



Required investments often exceed the funds generated through customer rates for depreciation of existing assets, and meeting these growing needs requires additional capital. Capital requirements

can be met in two ways: through debt, equity or a combination of both. Debt can be acquired at rates directly influenced by the financial health (credit ratings) of the utility and excessive debt can decrease the financial health of a utility (i.e., over-leveraged). As a result, remaining requirements must be obtained from shareholders through direct equity contributions and/or the deferral and voluntary reinvestment of dividends.

Return on utility investments is routinely spread over decades, requiring investors who are willing and able to deploy billions of dollars in capital knowing that any return may not be realized for decades. To obtain these necessary long-term investments, the utility and the jurisdiction in which it operates (both legislative and regulatory) must provide investors with confidence in the recovery of expenses, a reasonable return on invested capital and the ability to mitigate against risks over the entire investment time horizon.

The frequency, intensity and complexity of change in the energy sector will impact the development and implementation of any corporate realignment. Customer demands, state and federal requirements and environmental policies are challenging how PacifiCorp operates as a six-state utility. While PacifiCorp has responded to these upward pressures, PacifiCorp's ability to schedule the long-term necessary investments is increasingly threatened as external factors (e.g. wildfire mitigation investments, large customer load growth, and state energy policies) drive the timing of costs, leading stakeholders to more frequently attempt to assign costs and benefits to particular states. That, in turn, creates uncertainty regarding planning, energy policy compliance, net power costs, and future rate treatment.

As a public utility, regulated by six states and the federal government, PacifiCorp cannot unilaterally restructure. With limited exceptions previously agreed upon by the states, each of PacifiCorp's owned generation and transmission assets used to serve customers are shared by each state, regardless of its physical location. PacifiCorp would need approval from each of its six state utility commissions and the Federal Energy Regulatory Commission (FERC) to restructure, including moving any assets from PacifiCorp to another legal entity. Additionally, PacifiCorp has covenants under its mortgage that do not allow for the partial transfer of assets to a new entity without bondholder consent.

The development of a corporate realignment plan of this magnitude is unprecedented and complex, and would likely take at least 18-24 months to develop. Once approved, PacifiCorp would need to implement the corporate realignment proposal by filing rate cases in each state to adjust rates, which could take an additional 12-18 months.

## Background

PacifiCorp serves approximately 2.1 million retail electric customers in portions of Utah, Oregon, Wyoming, Washington, Idaho, and California. PacifiCorp is principally engaged in the business of generating, transmitting, distributing, and selling electricity. PacifiCorp's combined service territory covers approximately 141,500 square miles and includes diverse regional economies across six states. No single segment of the economy dominates the combined service territory, which helps mitigate PacifiCorp's exposure to economic fluctuations. In the eastern portion of the service territory, consisting of Utah, Wyoming, and southeastern Idaho, the principal industries are

manufacturing, mining and extraction of natural resources, agriculture, technology, recreation, and government. In the western portion of the service territory, consisting of Oregon, southern Washington, and northern California, the principal industries are agriculture, manufacturing, forest products, food processing, technology, government, and primary metals. In addition to retail sales, PacifiCorp buys and sells electricity on the wholesale market with other utilities, energy marketing companies, financial institutions, and other market participants to balance and optimize the economic benefits of electricity generation, retail customer loads and existing wholesale transactions.

**Table 1: Gigawatt/hours (GWhs) and percentages of electricity sold to PacifiCorp's retail customers by jurisdiction for the years ended December 31.**

	2023		2022		2021	
Utah	26,062	46 %	26,110	46 %	25,657	46 %
Oregon	13,949	25	13,701	24	13,510	24
Wyoming	8,579	15	8,666	15	8,557	15
Washington	3,850	7	4,181	7	4,199	8
Idaho	3,496	6	3,707	7	3,553	6
California	760	1	799	1	798	1
Total	<u>56,696</u>	<u>100 %</u>	<u>57,164</u>	<u>100 %</u>	<u>56,274</u>	<u>100 %</u>

**Table 2: Electricity sold to PacifiCorp's retail and wholesale customers by class of customer and the average number of retail customers for the years ended December 31.**

	2023		2022		2021	
<b>GWhs sold:</b>						
Residential	18,159	31 %	18,425	30 %	17,905	29 %
Commercial	20,491	34	19,570	32	18,839	31
Industrial	16,705	28	17,622	28	17,909	29
Other	1,341	2	1,547	2	1,621	3
Total retail	<u>56,696</u>	<u>95</u>	<u>57,164</u>	<u>92</u>	<u>56,274</u>	<u>92</u>
Wholesale	2,911	5	4,836	8	5,113	8
Total GWhs sold	<u>59,607</u>	<u>100 %</u>	<u>62,000</u>	<u>100 %</u>	<u>61,387</u>	<u>100 %</u>
<b>Average number of retail customers (in thousands):</b>						
Residential	1,806	87 %	1,775	87 %	1,745	87 %
Commercial	227	11	225	11	222	11
Industrial	9	1	9	1	9	1
Other	27	1	28	1	27	1
Total	<u>2,069</u>	<u>100 %</u>	<u>2,037</u>	<u>100 %</u>	<u>2,003</u>	<u>100 %</u>

PacifiCorp's operations are conducted under numerous franchise agreements, certificates, permits, and licenses obtained from federal, state, and local authorities. PacifiCorp generally has an exclusive right to serve electric customers within its service territories and, in turn, has an obligation to provide electric service to those customers. In return, the state utility commissions have established rates



on a cost-of-service basis, which are designed to allow PacifiCorp to recover its prudent costs of providing services and to earn a reasonable return on its investments.

All shares of PacifiCorp's common stock are owned by Berkshire Hathaway Energy (BHE) indirectly through an intermediary holding company. PacifiCorp also has shares of preferred stock outstanding that are subject to voting rights in certain limited circumstances.

PacifiCorp is required to have resources available to continuously meet its customer needs and reliably operate its electric system. The percentage of PacifiCorp's energy supplied by different energy sources varies from year to year and is subject to numerous operational, economic, and environmental factors, such as planned and unplanned outages, fuel commodity prices, fuel availability, fuel transportation costs, weather, legislative considerations, transmission constraints, and wholesale market prices of electricity. PacifiCorp evaluates these factors continuously to facilitate economic dispatch of its generating facilities.

When factors for one energy source are less favorable, PacifiCorp places more reliance on other energy sources. For example, PacifiCorp can generate more electricity using its low-cost wind-powered and hydroelectric generating facilities when factors associated with these facilities are favorable (e.g., when the wind is blowing it provides zero-fuel-cost energy and resources such as natural gas and/or coal with a fuel cost can be backed down), but can also turn to its non-variable, dispatchable resources when factors associated with these facilities are favorable (e.g., when wholesale energy market prices exceed the cost to generate electricity using natural gas and/or coal). In addition to meeting its customers' energy needs, PacifiCorp is required to maintain operating reserves on its system to mitigate the impacts of unplanned outages or other disruption in supply, and to meet intra-hour changes in demand and supply (i.e., load and resource balance). This operating reserve requirement applies across PacifiCorp's generation portfolio and is designated using least-cost principles and the operating characteristics of the entire resource portfolio. Operating reserves are normally held by hydroelectric resources, coal-fueled resources, natural gas-fueled resources, storage resources, and certain types of interruptible load (e.g., large industrial customers under a special contract that allows the company to curtail loads within certain parameters). PacifiCorp manages certain risks relating to its supply of electricity and fuel requirements by entering into various contracts, which may include forwards, options, swaps, and other agreements.

PacifiCorp's transmission system is part of the Western Interconnection, which includes the interconnected transmission systems of 14 western states, two Canadian provinces and parts of Mexico. 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. As of December 31, 2023, PacifiCorp's transmission and distribution systems included approximately 17,100 miles of transmission lines in 10 states, 66,300 miles of distribution lines and 900 substations. Deliveries of energy over PacifiCorp's transmission system are managed and scheduled in accordance with FERC requirements.

PacifiCorp operates one balancing authority area in the western portion of its transmission system (PacifiCorp-West) and one balancing authority area in the eastern portion of its transmission system (PacifiCorp-East). A balancing authority area is a geographic area in which the balancing authority area controls the transmission system and the generation dispatch and manages import and export

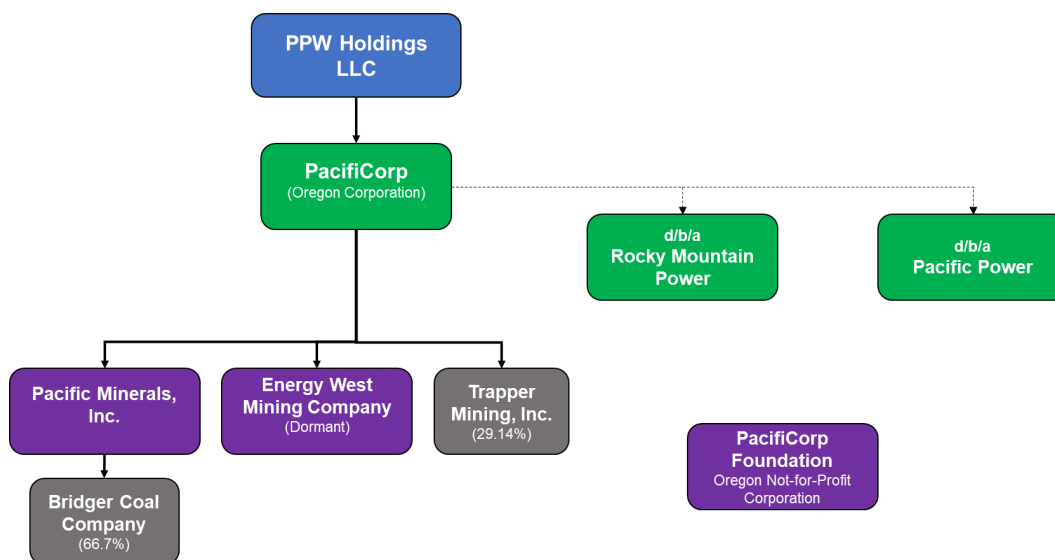
schedules with neighboring balancing authority (interchange) areas to ensure reliable operations within the balancing authority areas and across the Western Interconnection. In operating the balancing authority areas, PacifiCorp is responsible for continuously balancing electricity supply and demand by dispatching generating resources and managing interchange schedules so that generation internal to the balancing authority area plus net imported power matches the balancing authority area loads plus exported power. Notably, the load and generation located within the PacifiCorp balancing authority area includes more than just PacifiCorp’s load and resources. Load and resources of other utilities, municipal power companies, wholesale marketers, and other FERC-regulated wholesale transmission customers using PacifiCorp’s transmission system may all be located within the PacifiCorp balancing authority areas.

The six-state operations of PacifiCorp described herein are supported by approximately 5,000 dedicated employees, of which approximately 2,800 are covered by union contracts, principally with the International Brotherhood of Electrical Workers, the Utility Workers Union of America and the International Brotherhood of Boilermakers.

## Current Structure

PacifiCorp’s current corporate structure reflects its single system operation. As part of the acquisition of PacifiCorp by BHE (f.k.a. MidAmerican Energy Holding Company), PacifiCorp and its direct parent entity, PPW Holdings LLC, agreed to a number of conditions (the Merger Commitments), including ring-fencing and limitations on the creation of subsidiaries. Ring-fencing is a common regulatory structure for utilities to isolate both the assets and liabilities of the utility from its parent and protects the utility from the liabilities of the parent. The Merger Commitments also inform some of the required regulatory approvals by — and notices to — state utility commissions, discussed later in this report in the section titled “Regulatory Approvals”.

**Figure 1: Current PacifiCorp corporate structure.**



Single system operation provides substantial benefits to PacifiCorp customers by allowing the utility to leverage its load and geographic diversity, and its vast transmission system, to locate generation

in least-risk, least-cost locations across the system, including taking advantage of different load peaking. For example, the eastern part of the system is a summer peaking region, while the western part of the system has historically been a winter peaking system. PacifiCorp's single system can access numerous market hubs to buy and/or sell power to support load and reduce costs to customers. PacifiCorp's generation resources are diverse and include dispatchable and non-emitting resources located across the system to take advantage of access to mining operations, higher wind capacity, hydro resource availability, and other factors. A list of owned resources is included with this report as **Attachment A**. The expansive transmission system allows access to market trading hubs to ensure reliability to lower customers' costs, and the ability to interconnect a wide range of resources. Additionally, it allows consolidation of corporate efficiencies in procurement, information technologies, transmission operations, customer communications and service, human resources, financing, and accounting. The consolidation and sharing of risk in new resources, along with a single mortgage, has resulted in lower financing costs than peer utilities.

To properly allocate costs of shared operations and resources, a multi-state utility needs a commission-approved cost allocation methodology and process to set retail rates. Any restructured multi-state utility(ies) would continue to require such a mechanism to set retail rates.

## Corporate Realignment Considerations

### Financeability / PacifiCorp Mortgage

PacifiCorp is currently financed as one entity and issues U.S. Securities and Exchange Commission (SEC) registered First Mortgage Bonds as its primary source of long-term funding, which are a very efficient and cost-effective form of debt financing. Any examination of a corporate realignment would need to address the ability to finance all of the new contemplated entities, which will be complicated by PacifiCorp's Mortgage and Deed of Trust, dated January 9, 1989 (as amended and supplemented, the Mortgage). As of September 2024, the Mortgage governs twenty-three outstanding tranches of First Mortgage Bonds, in the aggregate principal amount of approximately \$13.6 billion. The Mortgage is secured by substantially all the currently owned and acquired generation, transmission, and distribution assets of PacifiCorp, totaling approximately \$36 billion (based on original cost) as of December 31, 2023. The Mortgage does not currently permit PacifiCorp to segregate assets into discrete corporate entities or multiple transferees. Accordingly, PacifiCorp would have to redeem, repurchase or exchange the existing First Mortgage Bonds with new debt financing at the corporate level of any new entities and create new mortgages for those entities. Further analysis by an investment banking firm would be needed to determine the costs and availability of each of these options. Implementation of each process could take several months. The First Mortgage Bonds also include a make-whole provision. If the bonds were called and repaid early to facilitate corporate realignment, a make-whole premium would need to be paid to bondholders in addition to the early repayment of the bonds. Current estimates for the make-whole premium are approximately \$1.6 billion. The make-whole premium on existing debt is significantly influenced by current interest rates, generally higher interest rates can decrease the make-whole premium and lower interest rates can increase the make-whole premium. For example, in 2017, a corporate realignment review estimated

the make-whole premium to be \$4 billion dollars based on then current interest rates. Ultimately, corporate realignment was not pursued at that time due to overall cost and financing challenges.

Corporate realignment would also require analysis of any contemplated splitting of assets held by any new entities and, depending on the assets held, what type of future financing would be practicable for each entity. For example, any smaller entity may not have adequate assets to issue secured public debt and may need to look to private placements or alternative facilities with differing costs of issuance. It may also not be practical for smaller entities to comply with the related SEC filings and regulations in order to issue secured public debt. Each entity would likely need its own credit rating by one of the major credit rating agencies. Such ratings could be different than the rating currently afforded the much larger PacifiCorp consolidated entity. The lower the credit rating the higher the cost of debt. Financeability at the date of formation and continued liquidity would need to be considered.

## Utility Operations

Electric utility facilities are generally broken down into generation, transmission, and distribution assets. Generation assets for PacifiCorp include thermal (e.g. coal, gas, and geothermal), hydro, renewables (e.g. wind and solar), and storage (e.g. batteries). Generation facilities are interconnected to the transmission grid, operating through an interconnected system owned by numerous entities, both public and private. Operation of the transmission system is subject to oversight by the FERC and reliability standards developed by the North American Electric Reliability Corporation (NERC). Western utilities have voluntarily coordinated operations of the transmission system for the past several decades through the Western Electricity Coordinating Council (WECC).

On each utility's system, electricity from the transmission system is progressively dropped to lower and lower voltages on the distribution system to serve customers. The combination of transmission and distribution operates as a single system, absent disrupting events. As load increases, generation must increase in real time to balance the system. NERC standards set specific requirements for utilities to plan, monitor, and respond to transmission system needs to prevent broader disruptions to other interconnected utilities. The interconnected nature of the transmission grid also allows broader market transactions as long as all generation is in sync across the West.

PacifiCorp has been planning and operating its interconnected system to meet the needs of all of its customers. Prior to the merger between PacifiCorp and Utah Power and Light in 1989, PacifiCorp served customers as Pacific Power & Light in California, Oregon, Montana, Washington, and parts of Wyoming, and Utah Power and Light served customers as Utah Power and Light in Idaho, Utah, and parts of Wyoming. As discussed above, the combination of these operations and service territories into a single system has provided benefits through greater system flexibility, more effective generation siting, larger and more diverse loads, increased availability to energy markets across the West and savings through shared resources.

## Generation

PacifiCorp owns 10,833 megawatts of generation capacity,<sup>1</sup> with more coming online in 2024, from a diverse mix of hydro, wind, natural gas, coal and geothermal resources, and has over 180 long-term contracts for more than 6,000 additional megawatts of generation.

Corporate realignment would likely require the identification and assignment of existing generation resources to serve the different state interests under each newly formed utility. This is a complex issue that has been under discussion in PacifiCorp's multi-state process, the stakeholder process exploring the allocation of costs of the system operations. The multi-state process was established in 2004, with discussions on assignment of existing generation resources becoming the primary focus in 2017 following the adoption of Oregon Senate Bill 1547, which required the costs and benefits from coal-fueled resources be removed from Oregon retail rates by 2030. In addition to existing owned resources, PacifiCorp would also have to address how power purchase agreements with third parties would be split among the new utilities, along with certain transmission rights used to buy and sell energy at the various wholesale market hubs. Changes to the current single system portfolio to serve different entities would likely require the modification of rates to match the costs and benefits of certain assets. This would change not only base rates, but also net power costs, i.e., the costs of producing and buying electricity to serve customers. Additionally, PacifiCorp's primary responsibility is to serve customers, so any separate resource portfolios of each new utility/entity would have to independently meet reliability requirements, regional resource adequacy requirements, and comply with any state energy policies.

Transitioning to multiple resource portfolios would likely cause rate impacts, which will need to be addressed given that customers in all states have been paying the fixed and variable costs of those resources—sometimes for decades. Any resource portfolio option would also need to allow market participation for the assets to mitigate adverse rate impacts to customers.

## Transmission Treatment

As discussed above, PacifiCorp's transmission system operates across two balancing authority areas. Each balancing authority area must be operated to maintain load and generation balancing. Dispatch of generation and load service, however, occurs across both balancing authority areas using transmission rights on both PacifiCorp's transmission facilities and on third-party systems. Additionally, PacifiCorp has to operate its transmission system to provide open access transmission service in compliance with FERC requirements. Under FERC requirements, PacifiCorp must provide generation interconnection service to third-party generators and customers and transmission service to utilities and market participants. As a wholesale transmission service provider, PacifiCorp must also provide ancillary services to support third-party use of the transmission system. This requires PacifiCorp to have generation assets available to provide reserves to meet third-party transmission and load schedules.

Corporate realignment would require an analysis of the impacts on the operation of the transmission system and ability to continue to provide ancillary services. FERC requirements would likely require similar treatment of transmission access for separate entities as to what is provided today to meet

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<sup>1</sup> As of December 31, 2023.



load needs. Different corporate realignment scenarios may provide different benefits for customers when balanced with PacifiCorp's legal obligations.

## Distribution

PacifiCorp already treats distribution facilities as situs assets, meaning that only the state in which the facilities serve customers bears the costs of those distribution facilities. Accordingly, these assets appear easier to identify and assign in corporate realignment without cost impact. However, there are still complicating aspects that require analysis, including anticipating the potential for further expansion of the system which could mean that distribution lines are upgraded and become part of the transmission system, triggering FERC jurisdictional authority and regulatory requirements. Accordingly, PacifiCorp may need to analyze both current usage, FERC considerations regarding line use, and potential future expansion.

Additional issues are anticipated, such as operational coordination, including the coordination of crews to address maintenance and emergency events. Currently, PacifiCorp operates its transmission and distribution as a seamless system and can dispatch crews to both transmission and distribution facilities to respond to events. PacifiCorp can also move crews around all states it serves to provide additional emergency response during extreme events. Depending on the form of corporate realignment, this may require cooperative agreements across various entities.

## Support Services

PacifiCorp has maintained low costs for its customers in part from efficiencies in support services. As a single corporate entity, PacifiCorp does not duplicate support services unless specifically required. Corporate realignment may require some duplication across entities, with customers having to pay the full cost of providing support services as opposed to a share of costs spread across six states.

Some of the duplication of services could be mitigated through the creation of a separate service company to provide shared services to all corporate entities in the restructured organization. This is a common approach for utilities, including vertically integrated utilities. A thorough analysis of what services could be shared would depend on the corporate realignment plan, benefits to customers, risk to the company, and specific legal requirements.

## Workforce Impacts

PacifiCorp would have to plan for potential employee realignment and outreach. PacifiCorp has a total workforce of approximately 5,000 employees, spread primarily across the six states in which it serves customers. Planning and operations are centralized company-wide or regionally. PacifiCorp has corporate support services distributed across its various offices. Additionally, PacifiCorp would have to manage employee uncertainty during the transition to ensure continued reliable service to customers and compliance with legal requirements.

## Contracts

Currently, except for certain local contracts associated with customer programs, distribution systems, and similar local activities, all major contracts are held by PacifiCorp for the benefit of all

customers. This would change with any corporate realignment. PacifiCorp would have to analyze each of its external contracts, anticipated to be over 50,000, to determine which organization would require the service or product and whether the agreement can be assigned unilaterally. If multiple entities need the service or product, and it cannot be centralized in a separate service company, each organization will need to execute a new replacement agreement or amendment. If PacifiCorp has negotiated low prices under any particular contract, this effort may provide the vendor with the opportunity to renegotiate, potentially increasing costs for customers.

PacifiCorp's external contracts include vendor agreements for goods and services, consulting agreements, software and support agreements, environmental restoration agreements, easements, water rights, joint use agreements, franchise agreements with local communities, customer agreements, transmission agreements, power sale and power purchase agreements, joint-ownership agreements, fuel agreements, and third-party transmission agreements, to name a few.

## Regulatory Approvals

PacifiCorp would be transferring jurisdictional assets to separate entities in a corporate realignment. This would require review and approval by each state commission and FERC as a property disposition filing, and may require additional approvals depending on the corporate realignment plan, such as the SEC, Federal Aviation Administration or Federal Communications Commission. Local distribution assets may only require approval in the state of location, but system assets (e.g. transmission and generation) are used to serve customers in all six states. The specific rules governing such transfers are defined by each state but generally follow the public interest standard meaning a customer benefit must be demonstrated to justify the transaction. Approvals typically take 10-12 months, but may take longer.

### Federal

The primary FERC application to execute a corporate realignment would be a Federal Power Act (FPA) section 203 application. The FPA section 203 application would seek approval for PacifiCorp to transfer its FERC-jurisdictional facilities to a new operating company(ies). FERC's section 203 review looks holistically at competition, rates, regulation, and affiliate cross-subsidy issues. A host of supporting rate changes and other regulatory filings would also be required, but the FPA section 203 application is the central component of the FERC regulatory approvals.

PacifiCorp would also need to revise FERC-approved tariffs to reflect the new scope of FERC-jurisdictional services and rates for both wholesale transmission service and wholesale generation sales. These filings would be done under FPA section 205. This may apply to new entities created by the realignment depending on the scope of their operations. New entities may need to update the market-based rate authority, but FERC generally considers all affiliates when considering granting authority to sell at market prices. Accordingly, the current status is unlikely to change.

Additionally, depending on the corporate realignment plan, PacifiCorp may need to transfer its FERC hydro-electric plant licenses.

Finally, new entities would need to seek new financing authorizations from FERC. FPA section 204 requires that public utilities receive authorization from FERC before issuing any security, or assuming any obligation or liability as guarantor, endorser, surety, or otherwise in respect of any security of another person. This includes any note, stock, treasury stock, bond, debenture, or other evidence of interest in or indebtedness.

## California

A utility must file with the California Public Utility Commission (CPUC) before transferring assets. Additionally, depending on the control an affiliate exerts over PacifiCorp, the addition of an intermediary parent company may also require approval.

California Public Utility Code section 851 requires that any public utility secure approval by the CPUC before the utility may sell, lease, assign, mortgage, or otherwise dispose of, or encumber the whole or any part of its line, plant, system, or other property necessary or useful in the performance of its duties to the public. The CPUC has broad discretion in reviewing requests for transferring assets under section 851. The CPUC recently applied a heightened standard of review for a proposal from Pacific Gas & Electric (PG&E) that would involve transferring substantially all PG&E's non-nuclear generation assets to a new company, Pacific Generation. The CPUC concluded that PG&E had to demonstrate tangible benefits of the proposed transaction because PG&E's proposal was novel and unprecedented and potentially impacted rates and the CPUC's jurisdiction. This heightened standard may also be applied to a corporate realignment of this magnitude.

## Idaho

PacifiCorp's Idaho-specific Merger Commitments require the company to provide notice to the Idaho Public Utilities Commission (IPUC) before forming new affiliates and before commencing new business with PacifiCorp affiliates. Idaho statutes also require PacifiCorp to secure approval for any transfer of assets.

Under Idaho Code section 61-328(1), a utility may not merge, sell, lease, assign or transfer, directly or indirectly, in any manner whatsoever, any property located in Idaho which is used in the generation, transmission, distribution or supply of electric power and energy to the public or any portion thereof unless authorized to do so by order of the IPUC. This statute has been applied to the sale of a generation asset located outside Idaho, but used to serve customers in the state. The IPUC may issue an order authorizing a transfer of assets only after finding that the proposal satisfies the following elements: (1) the transaction is consistent with the public interest; (2) the cost of and rates for supplying service will not be increased by reason of such transaction; and (3) the applicant for such acquisition or transfer has the bona fide intent and financial ability to operate and maintain said property in the public service.

While the initial review indicates no specific legal requirement for a corporate realignment, depending on the extent of the corporate realignment plan, IPUC approval may be required given the potential impacts to assets used to serve customers in Idaho.

## Oregon

Oregon statutes require PacifiCorp to secure approval from the Public Utility Commission of Oregon (OPUC) for a transfer of assets and for agreements between affiliates. Additionally, to the extent any affiliate would exercise substantial influence over the utility's policies and actions, creation of the affiliate would require approval from the OPUC.

Oregon Revised Statute 757.480 requires OPUC approval before a utility may sell, lease, assign or otherwise dispose of property of \$1 million or more or of any franchise, permit or right to maintain and operate the public utility or public utility property, or perform any service as a public utility. Given the scope of a corporate realignment, these provisions would require OPUC approval before PacifiCorp transfers its assets to other entities as part of the corporate realignment. When seeking OPUC approval of a property transfer, a utility must demonstrate that the proposed transfer is consistent with the public interest. The OPUC has interpreted this standard to require that a utility demonstrate that the proposed transfer will cause no harm to customers.

## Utah

PacifiCorp's Utah-specific Merger Commitments and Utah statutes require the company to file for approval from the Utah Public Services Commission (UPSC) for any proposal to transfer its assets to another entity. Additionally, PacifiCorp would have to report its transfer of assets and subsequent service agreements with other entities within the restructured company.

A public utility must file with the UPSC a report of the sale, transfer or other disposition of assets at least 30 days before the transfer. While this rule specifically requires reports for transfers of assets in excess of the lesser of ten million dollars or five percent of gross investment in utility plant devoted to Utah service, the UPSC has the discretion to require review of other transactions. This rule would require PacifiCorp to report the transfer of its assets prior to the transfer.

## Washington

The Washington Utilities and Transportation Commission (WUTC) must approve the transfer of assets or agreements with affiliates prior to the effective date of those agreements. The WUTC requires pre-approval of any utility proposal to sell, lease, assign or otherwise dispose of the whole or any part of its franchises, properties or facilities whatsoever, which are necessary or useful in the performance of its duties to the public. When considering proposed property transfers, the WUTC has articulated a standard of "no harm" to the public interest.

## Wyoming

PacifiCorp must seek prior approval from the Wyoming Public Service Commission (WPSC) before transferring assets. Additionally, PacifiCorp's Wyoming-specific Merger Commitments require the Company to provide notice to the WPSC before forming new affiliates and before commencing new business with PacifiCorp affiliates.

WPSC rules require that a utility obtain WPSC approval before transferring, selling, leasing, discontinuing the use of, or otherwise disposing of, relinquishing complete or partial operational control of any utility plant or facilities used or useful in providing service to the public. In orders

applying this rule, the WPSC required that a utility demonstrate the transfer will not adversely affect the utility's ability to serve the public and is in the public interest. Under this rule, PacifiCorp would be required to seek WPSC approval before transferring its assets under any corporate realignment plan.

## Optimizing a Corporate Realignment Plan

Optimizing a corporate realignment plan will require a thorough analysis to balance customer and shareholder interests, while meeting legal obligations and providing reliable service. The exercise is complex, and oversimplifying critical issues will harm reliable services in the future if not handled correctly. Any corporate realignment plan will need to be thoroughly evaluated to understand the effects on at least the following:

### Policy Alignment

PacifiCorp is subject to state energy policy in six states and to federal policy regulations. This includes policies established by statute and by administrative agencies. These policies may not be fully developed and may appear contradictory for a multistate utility. Any corporate realignment plan would have to provide different generation portfolios for the new, separate utilities that can be developed to meet individual or regional state energy policy needs while maintaining reliability and financeability. This is complicated by an ever-changing legislative and regulatory environment, so interests must be balanced based on what we know today with the understanding that the future will always involve risk. The new entities must, however, be able to facilitate economic growth in each state or region, with associated costs not spread to the other utility or utilities. This includes costs to balance the transmission system, meet resource adequacy requirements, and meet new load growth. No utility should lean on the investments paid for by customers in other utilities.

Additionally, depending on the corporate realignment plan, the resulting public utility(ies) may be regional, serving more than one state. This would continue to mandate development of an allocation methodology for shared costs, which could result in future conflicts if state energy policies diverge on a regional basis.

### Investment

A proposed corporate realignment plan must provide appropriate assurance of recovery of prudently incurred costs. Investments in the new corporate entities following any corporate realignment should not increase risk for shareholders. Assuring recovery on investments to serve load growth, enable economic development, and meet state energy policies is a critical element to any corporate realignment plan. This can be improved by proper policy alignment but cannot strand assets or result in leaning on the greater system.

### Financial Strength

A proposed corporate realignment plan must provide a credit-supportive environment for the resulting corporate entities. PacifiCorp may be unable to finance, for example, an individual state utility in California where it has no generation and serves approximately 48,000 customers in one of the most economically challenged areas of the state. Financing costs for such a utility may not be



sustainable to our customers. On the other hand, a well-designed corporate realignment plan may avoid the inter-jurisdictional cost allocation dilemma currently faced by PacifiCorp, and could lock in resources and costs, providing more certainty for creditors and, thus, lower borrowing costs for the benefit of customers.

## Wildfire Liability Risk Management

Wildfires are becoming more frequent and more severe. This combination has increased insurance costs and restrained the market for coverage. This, coupled with growing populations in wildfire risk zones, leads to the increasing risk that utilities will be the 'insurer of last resort'. Utah has recognized the risk to universal utility service and acted to protect customers and utilities through balanced legislation. Other states have not yet acted. This risk must be addressed, and corporate realignment may provide an avenue to isolate state or regional risk, while protecting assets that serve all customers to preserve reliability. Depending on the corporate realignment plan, this could provide security for shareholders and creditors, providing more certainty for future investments.

## Value

Most importantly, any corporate realignment plan must provide value, both quantifiable and through policy alignment, to our customers. Costs and benefits must be aligned after any corporate realignment, and any corporate realignment plan must provide for a reasonable transition to moderate rate impacts at implementation.

**ATTACHMENT A**  
**Owned Generation Resources**





Pacific Power  
Rocky Mountain Power