

December 13, 2006

Governor Theodore Kulongoski  
State of Oregon  
State Capitol Building  
Salem, Oregon

Dear Governor Kulongoski:

PacifiCorp appreciates the opportunity to participate on your Oregon Carbon Allocation Task Force. We would like to express our support for the process and with the collaborative way in which the median proposal for an Oregon Carbon Allocation Standard was developed.

PacifiCorp is not taking a position on the median proposal at this time since we have not had an opportunity to adequately analyze the potential rate impacts. However, we believe it is important to recognize that PacifiCorp does support several of the key flexible compliance mechanisms and design elements, which in our estimation will be critical in mitigating increases in electricity rates. They are as follows:

- The baseline allocation of carbon dioxide (CO<sub>2</sub>) allowances using a methodology that calculates the baseline cap using historical data of CO<sub>2</sub> emissions and electricity use from all regulated load serving entity (LSE). The historical period would rely on five consecutive years, with the state dropping data from the years with the highest and lowest emissions for each LSE. Average emissions for the remaining years would form the basis for the distributing allowances to each LSE.
- The 95% allocation of CO<sub>2</sub> allowances to regulated entities at no charge.
- The limitation on trading within the allowance market to only those LSEs subject to the standard.
- The ability to bank CO<sub>2</sub> allowances indefinitely.
- The use of four, three-year compliance periods, rather than annual compliance periods.
- The ability to delay a compliance period by one year as a result of an exceptionally poor hydro generation year.
- The ability to use both carbon offsets and unbundled renewable energy certificates in addition to CO<sub>2</sub> allowances for compliance purposes.

- The ability to pay an Alternative Compliance Payment (ACP) of \$40 (2006\$) if allowances, offsets or unbundled renewable energy certificates cannot be cost-effectively used.
- The use of a “circuit breaker” which would allow the cap to be exceeded for one year, in the event the total number of ACPs purchased by all capped entities exceeds (a) the total state CO<sub>2</sub> allowances normally issued during the compliance period plus (b) all banked allowances carried into the period by more than 10 percent in any one compliance period.

PacifiCorp also believes there is at least one remaining design issue that will need to be further developed. This item is the proposed handling of unspecified market electricity purchases that would assign an emissions rate based upon Northwest Power Pool generation that is not assigned to specific loads (e.g., the net system mix). We believe given additional time this approach can be improved upon.

Also, to test the effectiveness and understand the cost implications of the median proposal, PacifiCorp participated in the Task Force’s development of an economic model that could test different approaches, and describe consequences. We concur that the preliminary results of that modeling indicate that the proposed standard’s design can accomplish the projected carbon reductions, under most likely circumstances – that is, low to medium load growth – while Oregon ratepayers would see higher electricity rates but lower overall electricity bills. However, these results are heavily influenced by five key sets of underlying assumptions.

- The assumed allocation of new renewables between the different LSEs.
- The availability of new renewables supplies and their capital costs.
- The avoided costs used for the CO<sub>2</sub> cost calculations.
- The availability of below market energy efficiency.
- Offset price assumptions.

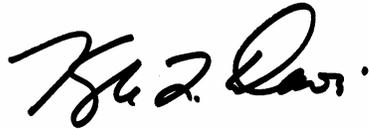
PacifiCorp agrees with the Task Force’s observation that the model remains a work in progress and that the conclusions are open to revision. We also concur with the recommendation that you ask Task Force members to continue to test and refine the tool, reviewing its methodology and findings against those of similar industry analytic models in order to improve its usefulness in measuring the economic costs and benefits involved in undertaking an Oregon greenhouse gas cap and trade system.

Finally, PacifiCorp agrees that a “load-based carbon allowance standard for Oregon” is indeed feasible without, however, thoroughly assessing its cost to ratepayers or concluding that it may be the most appropriate way to address the issue of climate change. While it may be useful to use the proposed standard as the basis for legislative action on climate change, we are not taking a position on if or when that legislation should be introduced. PacifiCorp is voluntarily taking actions that reduce its greenhouse gas emissions footprint and improve efficiency and reliability, including participating in industry and regulatory partnerships engaged in climate change solutions, enhancing the

efficiency of existing plants, increasing the diversity of its generating portfolio, and participating in research and development opportunities. Additional actions related to climate change—and CO<sub>2</sub> emissions specifically—represent key public policy decisions to be made by policy makers that appropriately balances energy, the environment and the economy.

Thank you once again and if there are any questions, I may be reached at 503) 813-6601.

Sincerely,

A handwritten signature in black ink, appearing to read "Kyle L. Davis". The signature is fluid and cursive, with a period at the end.

Kyle L. Davis  
PacifiCorp, Manager Environmental Policy & Strategy