Retail revenues increased $143 million, or 6%, primarily due to:

- $68 million of increases from higher prices approved by regulators;
- $40 million of increases due to growth in the average number of customers;
- $27 million of increases due to the recognition of revenues as a result of approval from the Oregon Public Utility Commission (the "OPUC") to collect previously under-collected income taxes pursuant to SB 408; and
- $9 million of increases due to higher average customer usage.

Wholesale revenues and other revenues increased $62 million, or 8%, primarily due to:

- $57 million of increases due to higher average prices on wholesale electric sales, partially offset by lower volumes of wholesale electric sales; and
- $14 million of increases in transmission revenue primarily due to higher contract prices; partially offset by,
- $14 million of decreases due to changes in the fair value of energy sales contracts accounted for as derivatives.

Operating Costs and Expenses (in millions)

	Nine-Month Periods Ended September 30,		Favorable/(Unfavorable)	
	2008	2007	$ Change	% Change
Energy costs	$ 1,497	$ 1,327	$ (170)	(13)%
Operations and maintenance	735	747	12	2
Depreciation and amortization	364	368	4	1
Taxes, other than income taxes	84	77	(7)	(9)
Total operating costs and expenses	$ 2,680	$ 2,519	$ (161)	(6)

Energy costs increased $170 million, or 13%, primarily due to:

- $109 million of increases primarily due to higher average prices and higher volumes of natural gas consumed;
- $33 million of coal cost increases primarily due to higher average coal prices;
- $16 million of increases primarily due to the deferral and amortization of incurred power costs in accordance with established adjustment mechanisms;
- $13 million of increases in transmission costs primarily due to new contracts; and
- $1 million of increases due to higher average prices of purchased electricity, substantially offset by lower volumes of purchased electricity.

Operations and maintenance decreased $12 million, or 2%, primarily due to:

- $27 million of decreases in employee expenses primarily due to lower pension and other postretirement benefit expenses; partially offset by,
- $10 million of increases in DSM expense primarily due to increased spending in Utah and Oregon; and
- $5 million of increases in bad debt expense.

Depreciation and amortization decreased $4 million, or 1%, primarily due to a $35 million reduction resulting from the extension of the depreciable lives of certain property, plant and equipment as a result of PacifiCorp's recent depreciation study, substantially offset by higher plant-in-service in the current period.

Taxes, other than income taxes increased $7 million, or 9%, primarily due to increased property tax expense due to higher levels of assessable property.

Other Income (Expense) (in millions)

	Nine-Month Periods Ended September 30,		Favorable/(Unfavorable)	
	2008	2007	$ Change	% Change
Interest expense	$ (254)	$ (230)	$ (24)	(10)%
Allowance for borrowed funds	23	24	(1)	(4)
Allowance for equity funds	31	28	3	11
Interest income	9	10	(1)	(10)
Other	(1)	-	(1)	(100)
Total other income (expense)	$ (192)	$ (168)	$ (24)	(14)

Interest expense increased $24 million, or 10%, primarily due to higher average debt outstanding, partially offset by lower average rates during the nine-month period ended September 30, 2008.

Allowance for borrowed and equity funds increased $2 million, or 4%, primarily due to higher qualified construction work-in-progress balances, partially offset by lower average rates during the nine-month period ended September 30, 2008.

Income Tax Expense

Income tax expense for the nine-month period ended September 30, 2008 increased $20 million to $184 million from the comparable period in 2007, primarily due to higher pre-tax earnings, combined with lower tax benefits associated with the regulatory treatment of certain deferred income taxes, tax years under examination by the Internal Revenue Service and the amortization of federal investment tax credits, partially offset by higher production tax credits associated with increased wind generation production. The effective tax rates were 35% and 33% for the nine-month periods ended September 30, 2008 and 2007, respectively.

Liquidity and Capital Resources

Sources and Uses of Cash

PacifiCorp depends on both internal and external sources of liquidity to provide working capital and to fund capital requirements. To the extent funds are not available to support capital expenditures, projects may be delayed or canceled and operating income may be reduced. Short-term cash requirements not met by cash from operating activities are generally satisfied with proceeds from short-term borrowings. Long-term cash needs are met through long-term debt issuances and through cash capital contributions from PacifiCorp's direct parent company, PPW Holdings LLC. PacifiCorp expects it will need additional periodic equity contributions from its parent company over the next several years. Issuance of long-term securities is influenced by levels of short-term debt, cash flows from operating activities, capital expenditures, market conditions, regulatory approvals and other considerations.

As of September 30, 2008, PacifiCorp's total net liquidity available was $1.3 billion. The components of total net liquidity available are as follows (in millions):

Cash and cash equivalents	$ 69
Available revolving credit facilities	$ 1,395
Less:	
Short-term borrowings and issuance of commercial paper	(117)
Pollution control revenue bond support	(38)
Net revolving credit facilities available	$ 1,240
Total net liquidity available	$ 1,309
Unsecured revolving credit facilities:	
Maturity date	2012-2013
Largest single bank commitment as a % of total[1]	15%

(1) An inability of financial institutions to honor their commitments could adversely affect PacifiCorp's short-term liquidity and ability to meet long-term commitments.

Operating Activities

Net cash flows from operating activities increased $102 million to $752 million for the nine-month period ended September 30, 2008 compared to $650 million for the nine-month period ended September 30, 2007, primarily due to higher retail revenues and lower income tax payments, partially offset by higher fuel costs, higher net margin deposits with third parties and higher interest payments.

Investing Activities

Net cash used in investing activities increased $292 million to $1.404 billion for the nine-month period ended September 30, 2008 compared to $1.112 billion for the nine-month period ended September 30, 2007, primarily due to PacifiCorp's acquisition of Chehalis Power Generating, LLC for a cash purchase price of $308 million in September 2008. PacifiCorp acquired from TNA Merchant Projects, Inc., an affiliate of Suez Energy North America, Inc., 100% of the equity interests of Chehalis Power Generating, LLC, an entity owning a 520-MW natural gas-fired generating plant located in Chehalis, Washington. Chehalis Power Generating, LLC was merged into PacifiCorp immediately following the acquisition.

The increase in investing activities was partially offset by a $25 million decrease in capital expenditures. Capital expenditures decreased to $1.111 billion for the nine-month period ended September 30, 2008 compared to $1.136 billion for the nine-month period ended September 30, 2007 primarily due to higher spending in the prior year to complete the 140-MW (nameplate rating) Marengo wind plant, which was placed in service in August 2007, partially offset by additional spending in the current year on wind projects expected to be completed in 2008 and 2009 and an increase in spending on emission control environmental projects during the current year. Emission control environmental project expenditures, excluding non-cash allowance for equity funds used during construction, were $137 million and $89 million during the nine-month periods ended September 30, 2008 and 2007, respectively.

Financing Activities

Short-Term Debt and Revolving Credit Agreements

PacifiCorp's short-term debt increased $117 million during the nine-month period ended September 30, 2008 primarily due to capital expenditures, scheduled maturities and acquisition of long-term debt, partially offset by net cash from operating activities, proceeds from the issuance of long-term debt, utilization of temporary cash investments and a $200 million capital contribution received during the period.

Regulatory authorities limit PacifiCorp to $1.5 billion of short-term debt, of which an aggregate principal amount of $117 million was outstanding at September 30, 2008, with a weighted-average interest rate of 3.90%.

As of September 30, 2008, PacifiCorp had $1.5 billion of total bank commitments under two unsecured revolving credit facilities. However, PacifiCorp's effective liquidity under these facilities has been reduced by $105 million to $1.395 billion due to the Lehman Brothers Holdings Inc. ("Lehman") bankruptcy filing in September 2008. Lehman filed for protection under Chapter 11 of the Federal Bankruptcy Code in the United States Bankruptcy Court in the Southern District of New York. Lehman Brothers Bank, FSB and Lehman Commercial Paper, Inc., both subsidiaries of Lehman, have commitments totaling $105 million in PacifiCorp's $1.5 billion unsecured revolving credit facilities.

PacifiCorp does not believe the reduction in available capacity under the credit facilities as a result of the Lehman bankruptcy will have a material adverse impact on PacifiCorp.

PacifiCorp's revolving credit and other financing agreements contain customary covenants and default provisions, including a covenant not to exceed a specified debt-to-capitalization ratio of 0.65 to 1.0. As of September 30, 2008, PacifiCorp was in compliance with the covenants of its revolving credit and other financing agreements.

In addition to the discussion contained herein regarding updates to financing activities based upon material changes that occurred subsequent to December 31, 2007, refer to Note 5 of Notes to Consolidated Financial Statements included in Item 1 of this Form 10-Q for further information regarding PacifiCorp's recent debt transactions.

Long-Term Debt

In July 2008, PacifiCorp issued $500 million of 5.65% First Mortgage Bonds due July 15, 2018 and $300 million of 6.35% First Mortgage Bonds due July 15, 2038. The net proceeds were used for general corporate purposes.

During the nine-month period ended September 30, 2008, PacifiCorp made scheduled long-term debt repayments of $400 million.

As of September 30, 2008, PacifiCorp had $518 million of letters of credit and standby bond purchase agreements available to provide credit enhancement and liquidity support for variable-rate pollution-control revenue bond obligations. As of September 30, 2008, $7 million of these obligations were unable to be remarketed and were held by banks under the terms of letters of credit arrangements. These obligations were subsequently remarketed during October 2008.

In September 2008, PacifiCorp acquired $216 million of its insured variable-rate pollution-control revenue bond obligations due to the significant reduction in market liquidity for insured variable-rate obligations.

PacifiCorp may from time to time seek to acquire its outstanding securities through cash purchases in the open market, privately negotiated transactions or otherwise. Any debt securities repurchased by PacifiCorp may be reissued or resold by PacifiCorp from time to time and will depend on prevailing market conditions, PacifiCorp's liquidity requirements, contractual restrictions and other factors. The amounts involved may be material.

Capital Contributions

In May 2008, PacifiCorp received capital contributions of $200 million in cash from its direct parent company, PPW Holdings LLC.

Future Uses of Cash

PacifiCorp has available a variety of sources of liquidity and capital resources, both internal and external, including cash flows from operations, public and private debt offerings, the issuance of commercial paper, the use of unsecured revolving credit facilities, capital contributions and other sources. These sources are expected to provide funds required for current operations, capital expenditures, debt retirements and other capital requirements. The availability and terms under which PacifiCorp has access to external financing depends on a variety of factors, including PacifiCorp's credit ratings, investors' judgment of risk and conditions in the overall capital market at the time of marketing, including the condition of the utility industry in general.

In the United States and most other economies around the world, recent market and economic conditions have been unprecedented and challenging with more restrictive credit conditions and slow growth through the third quarter of 2008. For the first nine months of 2008, continued concerns about the systemic impact of inflation, energy costs, geopolitical issues, the availability and cost of credit, the United States mortgage market and a declining real estate market in the United States have contributed to increased market volatility and diminished expectations for the United States economy. In the third quarter, large financial institutions such as Countrywide Financial Corporation, Washington Mutual Savings Bank, the Federal Home Loan Mortgage Association, the Federal National Mortgage Association, Wachovia Corporation, Bear Stearns Companies Inc. and Merrill Lynch & Co., Inc. were unable to survive as independent institutions. Lehman Brothers Holdings Inc. was forced to file for bankruptcy. Other surviving institutions such as Citigroup Inc., Goldman Sachs Group, Inc., American International Group, Inc., Morgan Stanley and others required multibillion dollar capital infusions. The United States federal government enacted emergency legislation in an attempt to stabilize the economy, increased the federal deposit insurance, invested billions of dollars in financial institutions and is taking other steps to infuse liquidity into the economy. The global nature of this credit crisis led other governments to institute similar measures. These conditions, combined with volatile oil, gas and other commodity prices, declining business and consumer confidence and increased unemployment have in the weeks subsequent to the end of the quarter contributed to volatility of unprecedented levels.

As a result of these market conditions, the cost and availability of credit has been and may continue to be adversely affected by illiquid credit markets and significantly wider credit spreads. Concern about the general stability of the markets and the credit strength of counterparties has led many lenders and institutional investors to reduce, and in some cases, cease to provide funding to borrowers. Continued turbulence in the United States and international markets and economies may adversely affect our liquidity and financial condition, and the liquidity and financial condition of our customers. Although in some cases, certain strong investment-grade regulated utilities have been able to issue debt in the capital markets, the cost of this capital has increased and, if these poor market conditions continue, it may limit PacifiCorp's ability to access the bank and debt markets to meet liquidity and capital expenditure needs, resulting in adverse effects on the timing and amount of PacifiCorp's capital expenditures, financial condition and results of operations.

Dividends

PacifiCorp does not currently anticipate that it will declare or pay dividends on common stock during the remainder of the year ending December 31, 2008.

Capital Expenditure Program

PacifiCorp has significant future capital requirements. Forecasted capital expenditures for fiscal 2008, which exclude non-cash allowance for equity funds used during construction, are approximately $2.0 billion. Capital expenditure needs are reviewed regularly by management and may change significantly as a result of these reviews, which may consider, among other factors, changes in rules and regulations, including environmental regulations, changes in income tax laws, general business conditions, load projections, system reliability standards, the cost and efficiency of construction labor, equipment, and materials, and the cost and availability of capital. In addition, there can be no assurance that costs related to capital expenditures will be fully recovered.

The capital expenditure estimate for ongoing operations projects for the year ending December 31, 2008 is approximately $980 million and includes new connections related to customer growth and generation plant overhauls.

The capital expenditure estimate for generation development projects for the year ending December 31, 2008 is approximately $715 million and includes the remaining costs for the 94-MW Goodnoe Hills wind plant, which was placed in service in May 2008, the 70-MW Marengo II wind plant, which was placed in service in June 2008 and the remaining construction costs for the development of five wind projects with total nameplate ratings of 355.5 MW, which are expected to be placed in service during 2008. Also included in the estimate are initial development costs for wind projects expected to be placed in service in 2009 and beyond.

The capital expenditure estimate for transmission system expansion and upgrades for the year ending December 31, 2008 is approximately $113 million and includes the construction of a 135-mile, double-circuit, 345-kilovolt transmission line to be built between the Populus substation located in southern Idaho and the Terminal substation located in the Salt Lake City area, one of the first major segments of the Energy Gateway Transmission Expansion Project. This transmission line will be constructed in the Path C Transmission corridor, a primary transmission corridor in PacifiCorp's balancing authority area. PacifiCorp expects to complete construction of this line in 2010. Effective September 2008, PacifiCorp executed the engineering, procurement and construction agreement for the Populus to Terminal segment. PacifiCorp is committed to making progress payments for the construction of the Populus to Terminal segment totaling $581 million. The progress payments for 2008 are estimated to be $67 million, which is included in the estimate above.

The capital expenditure estimate for emission control equipment projects for the year ending December 31, 2008 is approximately $214 million and includes the remaining installation costs for emission control equipment placed in service at the Cholla plant in May 2008, as well as estimated capital expenditures related to the addition of a new sulfur dioxide scrubber on Unit 3 and the replacement of an existing scrubber on Unit 4 of the Dave Johnston plant, which are expected to be placed in service during 2010 and 2012, respectively.

PacifiCorp is subject to federal, state and local laws and regulations with regard to air and water quality, renewable portfolio standards, hazardous and solid waste disposal and other environmental matters. The future costs (beyond existing planned capital expenditures) of complying with applicable environmental laws, regulations and rules cannot yet be reasonably estimated but are expected to be material to PacifiCorp. In particular, future mandates, including those associated with addressing the issue of global climate change may impact the operation of PacifiCorp's generating facilities and may require PacifiCorp to reduce emissions at its facilities through the installation of additional emission control equipment or to purchase additional emission allowances or offsets in the future. PacifiCorp is not aware of any proven commercially available technology that eliminates or captures and stores carbon dioxide emissions from coal-fired and gas-fired generation facilities, and PacifiCorp is uncertain when, or if, such technology will be commercially available.

The estimates and projects described above are subject to a high degree of variability based on several factors, including, among others highlighted in "Forward-Looking Statements" herein and discussed above, changes in regulations, laws, the economy and market conditions, as well as the outcomes of rate-making proceedings. Future decisions arising from the Integrated Resource Plan ("IRP") process may impact future estimated capital expenditures. Additionally, capital expenditure needs are regularly reviewed by management and may change significantly as a result of such reviews.

Requests for Proposals

PacifiCorp has issued a series of separate requests for proposals ("RFPs"), each of which focuses on a specific category of resources consistent with the IRP. The IRP and the RFPs provide for the identification and staged procurement of resources in future years to achieve load/resource balance. As required by applicable laws and regulations, PacifiCorp files draft RFPs with the Utah Public Service Commission (the "UPSC"), the OPUC and the Washington Utilities and Transportation Commission (the "WUTC") prior to issuance to the market.

In January 2008, PacifiCorp issued to the market a 2008 renewable resources RFP for less than 100 MW, or greater than 100 MW for a power purchase agreement with a term of less than five years, to become available no later than December 2009. In September 2008, PacifiCorp executed a power purchase agreement to purchase the entire output of the proposed 99-MW Three Buttes wind plant located in Wyoming. The delivery of the energy and associated renewable energy credits under this agreement is expected to commence in December 2009 for a period of 20 years.

In February 2008, PacifiCorp filed an all-source 2008 RFP with the UPSC, the OPUC and the WUTC for base-load, intermediate or third-quarter summer peaking products to be delivered into PacifiCorp's system. The all-source 2008 RFP seeks up to 2,000 MW of resources to become available beginning in 2012 through 2016. The all-source 2008 RFP was approved by the OPUC and the UPSC and subsequently issued to the market in October 2008.

In April 2008, PacifiCorp filed its draft 2008R-1 renewable resources RFP with the OPUC. The 2008R-1 RFP is a 500 MW request for renewable generation projects, no single resource greater than 300 MW, with on-line dates no later than December 31, 2011. The 2008R-1 RFP was approved by the OPUC in September 2008. Renewable resource requests under 300 MW do not require approval from the UPSC. The 2008R-1 RFP was issued to the market in October 2008 and responses are due by December 22, 2008.

Investment Trust Valuation

PacifiCorp sponsors a defined benefit pension plan and a postretirement benefit plan that cover the majority of its employees. The investments within the associated employee benefit plan trusts incurred market losses of approximately $181 million, or 14%, during the first nine months of 2008. Beginning with the 2008 year end, the benefit plan assets and obligations of plans will be measured as of December 31 each year. Reductions in plan assets as a result of investment losses may result in a change in individual plan funded status and a decrease in regulatory assets. Changes in the value of plan assets will not have an impact on earnings for 2008; however, reduced benefit plan assets may result in increased benefit costs in future years and may increase the amount and accelerate the timing of required future funding contributions.

PacifiCorp has established a trust for the investment of funds for final reclamation of a leased coal mining property. These investments in debt and equity securities are classified as available-for-sale and are reported at fair value and include the minority interest joint-owner portions. Amounts funded are based on estimated future reclamation costs and estimated future coal deliveries. The investments within the associated trusts incurred market losses of approximately $12 million, or 10%, during the first nine months of 2008.

Contractual Obligations and Commercial Commitments

Subsequent to December 31, 2007, there were no material changes to contractual obligations and commercial commitments from the information provided in Item 7 of PacifiCorp's Annual Report on Form 10-K for the year ended December 31, 2007, other than the 2008 debt issuances discussed in Note 5 and commercial commitments discussed in Note 8 of Notes to Consolidated Financial Statements included in Item 1 of this Form 10-Q. Additionally, refer to the "Capital Expenditures" and "Investment Trust Valuation" discussions included in "Liquidity and Capital Resources."

Credit Ratings

PacifiCorp's credit ratings at September 30, 2008 were as follows:

	Moody's	Standard & Poor's
Issuer/Corporate	Baa1	A-
Senior secured debt	A3	A-
Senior unsecured debt	Baa1	BBB+
Preferred stock	Baa3	BBB
Commercial paper	P-2	A-1
Outlook	Stable	Negative

On September 18, 2008, Standard & Poor's placed PacifiCorp's credit ratings on CreditWatch with negative implications. On November 5, 2008, Standard & Poor's changed PacifiCorp's senior unsecured debt rating to A-. Debt and preferred securities of PacifiCorp are rated by nationally recognized credit rating agencies. Assigned credit ratings are based on each rating agency's assessment of PacifiCorp's ability to, in general, meet the obligations of its issued debt or preferred securities. The credit ratings are not a recommendation to buy, sell or hold securities, and there is no assurance that a particular credit rating will continue for any given period of time.

PacifiCorp has no credit rating downgrade triggers that would accelerate the maturity dates of outstanding debt and a change in ratings is not an event of default under applicable debt instruments. PacifiCorp's unsecured revolving credit facilities do not require the maintenance of a minimum credit rating level in order to draw upon their availability. However, commitment fees and interest rates under the credit facilities are tied to credit ratings and increase or decrease when the ratings change. A ratings downgrade could also increase the future cost of commercial paper, short- and long-term debt issuances or new credit facilities.

A change to PacifiCorp's credit rating could result in the requirement to post cash collateral, letters of credit or other similar credit support under certain agreements related to its procurement or sale of electricity, natural gas, coal and other supplies. In accordance with industry practice, PacifiCorp's agreements may either specifically provide bilateral rights to demand cash or other security if credit exposures on a net basis exceed certain ratings-dependent threshold levels, or provide the right for counterparties to demand "adequate assurances" in the event of a material adverse change in PacifiCorp's creditworthiness. As of September 30, 2008, PacifiCorp's credit ratings from the three recognized credit rating agencies were investment grade; however, if the ratings fell one rating below investment grade, PacifiCorp's collateral requirements would increase by approximately $340 million. Additional collateral requirements would be necessary if ratings fell further than one rating below investment grade. PacifiCorp's collateral requirements could fluctuate considerably due to seasonality, market price volatility, a loss of key PacifiCorp generating facilities or other related factors.

For a further discussion of PacifiCorp's credit ratings and their effect on PacifiCorp's business, refer to Item 7 of PacifiCorp's Annual Report on Form 10-K for the year ended December 31, 2007.

Regulatory Matters

Federal Regulatory Matters

In addition to the discussion contained herein regarding updates to federal regulatory matters based upon material changes that occurred subsequent to December 31, 2007, refer to Note 8 of Notes to Consolidated Financial Statements included in Item 1 of this Form 10-Q for further information regarding federal regulatory matters.

Transmission Investment

In July 2008, PacifiCorp filed a petition for declaratory order with the Federal Energy Regulatory Commission (the "FERC") to confirm incentive rate treatment for the Energy Gateway Transmission Expansion Project. The Energy Gateway Transmission Expansion Project is an investment plan to build more than 1,900 miles of new high-voltage transmission lines primarily in Wyoming, Utah, Idaho, Oregon and the desert Southwest. The plan, with an estimated cost which could exceed $6 billion, depending on the ultimate configuration and timing of each segment, includes projects that will address customer base growth and customers' increasing electric energy use, improve system reliability and deliver wind and other renewable generation resources to more customers throughout PacifiCorp's six-state service area and the Western United States. Several transmission segments associated with this plan are expected to be placed in service beginning 2010 with major segments in service by 2014, depending on siting, permitting and construction timeframes. In October 2008, the FERC granted a 200 basis point (two percentage point) incentive rate adder to PacifiCorp's base return on equity for seven of the eight project segments. The FERC did not preclude PacifiCorp from filing for incentive rate treatment for the remaining segment at a future date.

The Bonneville Power Administration Residential Exchange Program

The Northwest Power Act, through the Residential Exchange Program, provides access to the benefits of low-cost federal hydroelectricity to the residential and small-farm customers of the region's investor-owned utilities. The program is administered by the Bonneville Power Administration (the "BPA") in accordance with federal law. Pursuant to agreements between the BPA and PacifiCorp, benefits from the BPA are passed through to PacifiCorp's Oregon, Washington and Idaho residential and small-farm customers in the form of electricity bill credits.

Several publicly owned utilities, cooperatives and the BPA's direct-service industry customers filed lawsuits against the BPA with the United States Court of Appeals for the Ninth Circuit (the "Ninth Circuit") seeking review of certain aspects of the BPA's Residential Exchange Program, as well as challenging the level of benefits previously paid to investor-owned utility customers. In May 2007, the Ninth Circuit issued two decisions that resulted in the BPA suspending payments to the Pacific Northwest's six utilities, including PacifiCorp. This resulted in increases to PacifiCorp's residential and small-farm customers' electric bills in Oregon, Washington and Idaho.

In February 2008, the BPA initiated a rate proceeding under the Northwest Power Act to reconsider the level of benefits for the years 2002 through 2006 consistent with the Ninth Circuit's decisions to re-establish the level of benefits for years 2007 and 2008 and to set the level of benefits for years 2009 and beyond. Also in February 2008, the BPA offered PacifiCorp and other investor-owned utilities an interim agreement intended to resume customer benefits pending the outcome of the rate proceeding. In March 2008, the OPUC ordered PacifiCorp to not execute the interim agreement offered by the BPA because the benefits offered were subject to true-up and acceptance of the benefits before the conclusion of the rate proceeding was not in the best interest of customers. In March and May 2008, PacifiCorp and other parties submitted testimony in the BPA rate proceeding and initial legal briefing was completed in June 2008. The BPA issued its final record of decision in September 2008 establishing rates for the time period of October 2008 through September 2009. In September 2008, the OPUC approved PacifiCorp's request to execute the residential purchase and sale agreement for the payment of Residential Exchange Program benefits from the BPA. In October 2008, PacifiCorp filed revised tariff sheets in both Oregon and Washington to resume residential exchange credits for customer invoices. The OPUC and WUTC approved the tariff sheet filings in October 2008, with an effective date of November 1, 2008. Because the benefit payments from the BPA are passed through to PacifiCorp's customers, the outcome of this matter will not have a significant effect on PacifiCorp's consolidated financial results.

Hydroelectric Relicensing

For a discussion of hydroelectric relicensing, refer to Note 8 of Notes to Consolidated Financial Statements included in Item 1 of this Form 10-Q.

Hydroelectric Decommissioning

Condit Hydroelectric Project – (White Salmon River, Washington)

In September 1999, a settlement agreement to remove the 14-MW (nameplate rating) Condit hydroelectric project was signed by PacifiCorp, state and federal agencies and non-governmental organizations. Under the original settlement agreement, removal was expected to begin in October 2006 with a total cost to decommission not to exceed $17 million, excluding inflation. In early February 2005, the parties agreed to modify the settlement agreement so that removal would not begin until October 2008 with a total cost to decommission not to exceed $21 million, excluding inflation. The settlement agreement is contingent upon receiving a FERC surrender order and other regulatory approvals that are not materially inconsistent with the amended settlement agreement. PacifiCorp is in the process of acquiring all necessary permits within the terms and conditions of the amended settlement agreement. The permitting process is ongoing, and as such, was not completed in time to allow the decommissioning of the project to begin by the October 2008 target date under the settlement agreement. Given the time needed for project removal and impacts to natural resources, decommissioning is now expected to begin in October 2009.

State Regulatory Actions

PacifiCorp is currently pursuing a regulatory program in all states, with the objective of keeping rates closely aligned to ongoing costs. The following discussion provides a state-by-state update based upon significant changes that occurred subsequent to December 31, 2007.

Utah

In December 2007, PacifiCorp filed a general rate case with the UPSC requesting an annual increase of $161 million, or an average price increase of 11%. The increase is primarily due to increased capital spending and net power costs, both of which are driven by load growth. In March 2008, PacifiCorp filed supplemental testimony reducing the requested rate increase to $100 million. The decrease was primarily a result of a UPSC-ordered change in the test period and reductions associated with recent UPSC orders on depreciation rate changes and two deferred accounting requests. Subsequently, hearings were held on the revenue requirement portion of the case and PacifiCorp filed additional testimony. In August 2008, the UPSC issued its revenue requirement order in the case, increasing rates by $36 million, or 3%. The new rates became effective August 13, 2008. In September 2008, PacifiCorp filed a petition for reconsideration of several elements of the order. In October 2008, the UPSC issued an order on the reconsideration petition allowing PacifiCorp to recover an additional $3 million, bringing the total rate increase to $39 million. A settlement that provides for an equal percentage increase to all tariff customers was reached in the rate-design phase of the case and was approved by the UPSC.

In July 2008, PacifiCorp filed a general rate case with the UPSC requesting an annual increase of $161 million over PacifiCorp's then-current rates, or an average price increase of 11%, prior to any consideration for the UPSC's order in the December 2007 case described above. In September 2008, PacifiCorp filed supplemental testimony that reflected then-current revenues and other adjustments based on the August 2008 order in the 2007 general rate case. The supplemental filing reduced PacifiCorp's request to $115 million. In October 2008, the UPSC issued an order changing the test period from the twelve months ending June 2009 using end-of-period rate base to the forecast calendar year 2009 using average rate base. PacifiCorp is required to update its filing to reflect the change in test period by December 1, 2008. The UPSC issued an order resetting the beginning of the 240-day statutory time period required to process the case to the date of the September 2008 supplemental filing. Based on the new time period, the new rates, if approved, will become effective in May 2009.

Oregon

In April 2008, PacifiCorp filed its first annual renewable adjustment clause to recover the revenue requirement related to new renewable resources and associated transmission that are eligible under the Oregon Renewable Energy Act and are not reflected in general rates. PacifiCorp requested an annual increase of $39 million on an Oregon-allocated basis, or an average price increase of 4%. The OPUC is expected to issue a decision in November 2008, with rates effective January 1, 2009.

In July 2008, as part of its annual transition adjustment mechanism, PacifiCorp filed updated forecasted net power costs for 2009. PacifiCorp proposed a net power cost increase of $57 million on an Oregon-allocated basis, or an average price increase of 6%. In September 2008, PacifiCorp filed a stipulation agreement reducing the proposed net power cost increase to $34 million on an Oregon-allocated basis, or an average price increase of 2%. The forecasted net power costs will be updated again in early November 2008 for OPUC-ordered changes, changes to the forward price curve and new wholesale sales and purchases. A final update for changes in the forward price curve will be filed in November 2008. The new rates will become effective January 1, 2009.

For a discussion of SB 408, refer to Note 4 of Notes to Consolidated Financial Statements included in Item 1 of this Form 10-Q.

Wyoming

In June 2007, PacifiCorp filed a general rate case with the Wyoming Public Service Commission (the "WPSC") requesting an annual increase of $36 million, or an average price increase of 8%. In addition, PacifiCorp requested approval of a new renewable resource recovery mechanism and a marginal cost pricing tariff to better reflect the cost of adding new generation. In January 2008, PacifiCorp reached a settlement in principle with parties to the case, subject to approval by the WPSC. The settlement provides for an annual rate increase of $23 million, or an average price increase of 5%. In addition, the parties also agreed to modify the current power cost adjustment mechanism ("PCAM") to use forecasted power costs in the future and to terminate the PCAM by April 2011, unless a continuation is specifically applied for by PacifiCorp and approved by the WPSC. PacifiCorp's marginal cost pricing tariff proposal will not be implemented, but will be the subject of a collaborative process to seek a new pricing proposal. Also as part of the settlement, PacifiCorp agreed to withdraw from this filing its request for a renewable resource recovery mechanism. The stipulation was approved by the WPSC in March 2008. The new rates were effective May 1, 2008.

In February 2008, PacifiCorp filed its annual PCAM application with the WPSC for costs incurred during the period December 1, 2006 through November 30, 2007. In March 2008, the WPSC approved PacifiCorp's request on an interim basis effective April 1, 2008, resulting in a rate increase of $31 million, or an average price increase of 8%, to recover deferred power costs over a one-year period. In August 2008, PacifiCorp reached an agreement with parties to the case to adjust the rate increase to $29 million. The settlement agreement was filed with the WPSC in August 2008. In September 2008, the WPSC issued a bench order approving the stipulation agreement. The interim rates were revised to reflect the $29 million increase approved in the stipulation agreement and became effective October 15, 2008.

In July 2008, PacifiCorp filed a general rate case with the WPSC requesting an annual increase of $34 million, or an average price increase of 7%, with an effective date in May 2009. Power costs have been excluded from the filing and will be addressed separately in PacifiCorp's annual PCAM application in February 2009.

Washington

In February 2008, PacifiCorp filed a general rate case with the WUTC for an annual increase of $35 million, or an average price increase of 15%. In August 2008, PacifiCorp filed with the WUTC an all-party settlement agreement in which the parties agreed to an overall rate increase of $20 million, or 9%. The settlement was approved by the WUTC in October 2008 with the new rates effective October 15, 2008. The increase is composed of an $18 million increase to base rates, as well as a $2 million annual surcharge for approximately three years related to recovery of higher power costs incurred in 2005 due to poor hydroelectric conditions. The total recovery of the higher power costs will be $6 million plus interest. PacifiCorp agreed to drop the current proposal for a generation cost adjustment mechanism ("GCAM") and further committed that PacifiCorp would not propose a GCAM in the next general rate case.

Idaho

In September 2008, PacifiCorp filed a general rate case with the Idaho Public Utilities Commission (the "IPUC") for an annual increase of $6 million, or an average price increase of 4%, with an effective date of April 18, 2009. The increase is primarily due to increased capital spending and net power costs.

In October 2008, PacifiCorp filed a request with the IPUC for approval of an annual energy cost adjustment mechanism ("ECAM") to defer the difference between base net power costs set during a general rate case and actual net power costs incurred by PacifiCorp. If approved, annually on April 1 PacifiCorp would file an application with the IPUC to adjust the ECAM surcharge rate beginning June 1 to refund or collect the ECAM deferred balance from the end of the prior calendar year.

Depreciation Rate Changes

For a discussion of PacifiCorp's depreciation rate changes, refer to Note 2 of Notes to Consolidated Financial Statements included in Item 1 of this Form 10-Q.

Environmental Matters

In addition to the discussion contained herein, refer to Note 8 of Notes to Consolidated Financial Statements included in Item 1 of this Form 10-Q and Item 1 of PacifiCorp's Annual Report on Form 10-K for the year ended December 31, 2007 for additional information regarding certain environmental matters affecting PacifiCorp's operations.

Regulated Air Pollutants

The Clean Air Mercury Rule ("CAMR"), issued in 2005, set up an emissions trading system to reduce mercury emissions. The rule was unanimously overturned in February 2008 by a three-judge panel of the United States Court of Appeals for the District of Columbia Circuit. In September 2008, the Utility Air Regulatory Group petitioned the United States Supreme Court for a writ of certiorari to review the United States Court of Appeals for the District of Columbia Circuit's February 2008 decision overturning the rule. The United States Environmental Protection Agency filed a petition to the United States Supreme Court in October 2008 seeking to overturn the lower court's ruling.

Renewable Portfolio Standards

In March 2008, Utah's governor signed Utah Senate Bill 202, *Energy Resource and Carbon Emission Reduction Initiative*. Among other things, this law provides that beginning in the year 2025, 20% of adjusted retail electric sales of all Utah utilities be supplied by renewable energy, if it is cost-effective. Retail electric sales will be adjusted by deducting the amount of generation from sources that produce zero or reduced carbon emissions, and for sales avoided as a result of energy efficiency and demand-side management programs. Qualifying renewable energy sources can be located anywhere in the Western Electricity Coordinating Council areas and renewable energy credits can be used. The costs of complying with the law will be a system cost and are expected to be recovered in retail rates in all states served, either through rate cases or adjustment mechanisms.

New Accounting Pronouncements

For a discussion of new accounting pronouncements affecting PacifiCorp, refer to Note 2 of Notes to Consolidated Financial Statements included in Item 1 of this Form 10-Q.

Critical Accounting Policies

Certain accounting policies require management to make estimates and judgments concerning transactions that will be settled in the future. Amounts recognized in the Consolidated Financial Statements from such estimates are necessarily based on numerous assumptions involving varying and potentially significant degrees of judgment and uncertainty. Accordingly, the amounts currently reflected in the Consolidated Financial Statements will likely increase or decrease in the future as additional information becomes available. Estimates are used for, but not limited to, the accounting for the effects of certain types of regulation, derivatives, pension and postretirement obligations, income taxes and revenue recognition - unbilled revenue. For additional discussion of PacifiCorp's critical accounting policies, see Item 7 of PacifiCorp's Annual Report on Form 10-K for the year ended December 31, 2007. PacifiCorp's critical accounting policies have not changed materially since December 31, 2007.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

For quantitative and qualitative disclosures about market risk affecting PacifiCorp, see Item 7A of PacifiCorp's Annual Report on Form 10-K for the year ended December 31, 2007. PacifiCorp's exposure to market risk and its management of such risk has not changed materially since December 31, 2007. The recent unprecedented volatility in the capital and credit markets has developed rapidly and may create additional risks in the future. Refer to Note 6 of Notes to Consolidated Financial Statements included in Item 1 of this Form 10-Q for disclosure of PacifiCorp's derivative positions as of September 30, 2008 and December 31, 2007.

Credit Risk

As of September 30, 2008, 64% of PacifiCorp's credit exposure, net of collateral, from wholesale operations was with counterparties having externally rated "investment grade" credit ratings, while an additional 6% of PacifiCorp's credit exposure, net of collateral, from wholesale operations was with counterparties having financial characteristics deemed equivalent to "investment grade" by PacifiCorp based on internal review.

For the nine-month period ended September 30, 2008, PacifiCorp has not experienced a significant increase in customers' inability to pay, or pay on time, amounts owed to PacifiCorp. Management continues to closely monitor credit risks and has heightened collection efforts, including the evaluation of counterparty credit risk. PacifiCorp's bad debt expense has not materially changed for the first nine months of 2008 as compared to 2007.

Interest Rate Risk

As of September 30, 2008, PacifiCorp had floating-rate obligations totaling $442 million that expose PacifiCorp to the risk of increased interest expense in the event of increases in short-term interest rates. Changes in floating interest rates have not had a material impact on PacifiCorp's consolidated interest expense for the nine-month period ended September 30, 2008.

Refer to the "Liquidity and Capital Resources" discussion in Item 2 of this Form 10-Q for a discussion regarding the current debt markets and the potential impact to PacifiCorp.

Item 4(T). Controls and Procedures

At the end of the period covered by this Quarterly Report on Form 10-Q, PacifiCorp carried out an evaluation, under the supervision and with the participation of PacifiCorp's management, including the Chief Executive Officer (principal executive officer) and the Chief Financial Officer (principal financial officer), of the effectiveness of the design and operation of PacifiCorp's disclosure controls and procedures (as defined in Rule 13a-15(e) promulgated under the Securities and Exchange Act of 1934, as amended). Based upon that evaluation, PacifiCorp's management, including the Chief Executive Officer (principal executive officer) and the Chief Financial Officer (principal financial officer), concluded that PacifiCorp's disclosure controls and procedures were effective to ensure that information required to be disclosed by PacifiCorp in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and is accumulated and communicated to management, including PacifiCorp's Chief Executive Officer (principal executive officer) and Chief Financial Officer (principal financial officer), or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. There has been no change in PacifiCorp's internal control over financial reporting during the quarter ended September 30, 2008 that has materially affected, or is reasonably likely to materially affect, PacifiCorp's internal control over financial reporting.