10-Q 1 pacificorp63010form10q.htm PACIFICORP JUNE 30, 2010 FORM 10-Q

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

[X] Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended June 30, 2010

or

[ ] Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from ______ to ______

Commission File Number	Exact name of registrant as specified in its charter; State or other jurisdiction of incorporation or organization	IRS Employer Identification No.
1-5152	**PACIFICORP** **(An Oregon Corporation)** **825 N.E. Multnomah Street** **Portland, Oregon 97232** **503-813-5000**	**93-0246090**

N/A

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes ☐ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐ Accelerated filer ☐ Non-accelerated filer ☒ Smaller reporting company ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes ☐ No ☒

All of the shares of outstanding common stock are indirectly owned by MidAmerican Energy Holdings Company, 666 Grand Avenue, Des Moines, Iowa. As of July 31, 2010, 357,060,915 shares of common stock were outstanding.

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PART I

PART I

Item 1. Financial Statements

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of
PacifiCorp
Portland, Oregon

We have reviewed the accompanying consolidated balance sheet of PacifiCorp and subsidiaries ("PacifiCorp") as of June 30, 2010, and the related consolidated statements of operations and comprehensive income for the three-month and six-month periods ended June 30, 2010 and 2009, and of cash flows and changes in equity for the six-month periods ended June 30, 2010 and 2009. These interim financial statements are the responsibility of PacifiCorp's management.

We conducted our reviews in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to such consolidated interim financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of PacifiCorp and subsidiaries as of December 31, 2009, and the related consolidated statements of operations, cash flows, changes in equity and comprehensive income for the year then ended (not presented herein); and in our report dated March 1, 2010, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying consolidated balance sheet as of December 31, 2009 is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ Deloitte & Touche LLP

Portland, Oregon
August 6, 2010

PACIFICORP AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS (Unaudited)
(Amounts in millions)

	As of	
	June 30, 2010	December 31, 2009
ASSETS		
Current assets:		
Cash and cash equivalents	$ 110	$ 117
Accounts receivable, net	539	619
Income taxes receivable from affiliates	—	249
Inventories:		
Materials and supplies	184	192
Fuel	188	187
Derivative contracts	117	108
Deferred income taxes	48	39
Other current assets	46	61
Total current assets	1,232	1,572
Property, plant and equipment, net	15,865	15,537
Regulatory assets	1,655	1,539
Derivative contracts	22	43
Investments and other assets	373	275
Total assets	$ 19,147	$ 18,966

The accompanying notes are an integral part of these consolidated financial statements.

PACIFICORP AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS (Unaudited) (continued)
(Amounts in millions)

	As of	
	June 30, 2010	December 31, 2009
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	$ 424	$ 553
Income taxes payable to affiliate	4	—
Accrued employee expenses	110	76
Accrued interest	110	111
Accrued property and other taxes	80	67
Derivative contracts	80	85
Current portion of long-term debt and capital lease obligations	16	16
Other current liabilities	87	105
Total current liabilities	911	1,013
Regulatory liabilities	835	838
Derivative contracts	453	410
Long-term debt and capital lease obligations	6,399	6,400
Deferred income taxes	2,768	2,625
Other long-term liabilities	743	948
Total liabilities	12,109	12,234
Commitments and contingencies (Note 8)		
Equity:		
PacifiCorp shareholders' equity:		
Preferred stock	41	41
Common equity:		
Common stock - 750 shares authorized, no par value, 357 shares issued and outstanding	—	—
Additional paid-in capital	4,479	4,379
Retained earnings	2,519	2,234
Accumulated other comprehensive loss, net	(1)	(6)
Total common equity	6,997	6,607
Total PacifiCorp shareholders' equity	7,038	6,648
Noncontrolling interest	—	84
Total equity	7,038	6,732
Total liabilities and equity	$ 19,147	$ 18,966

The accompanying notes are an integral part of these consolidated financial statements.

PACIFICORP AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)
(Amounts in millions)

	Three-Month Periods Ended June 30,		Six-Month Periods Ended June 30,	
	2010	2009	2010	2009
Operating revenue	$ 1,052	$ 1,016	$ 2,158	$ 2,132
Operating costs and expenses:				
Energy costs	348	360	763	796
Operations and maintenance	264	261	534	514
Depreciation and amortization	139	136	277	270
Taxes, other than income taxes	32	31	64	65
Total operating costs and expenses	783	788	1,638	1,645
Operating income	269	228	520	487
Other income (expense):				
Interest expense	(97)	(100)	(194)	(199)
Allowance for borrowed funds	12	8	24	15
Allowance for equity funds	20	14	42	27
Interest income	2	9	3	12
Other, net	(2)	—	(2)	(1)
Total other income (expense)	(65)	(69)	(127)	(146)
Income before income tax expense	204	159	393	341
Income tax expense	54	49	107	105
Net income	150	110	286	236
Net income attributable to noncontrolling interest	—	—	—	3
Net income attributable to PacifiCorp	$ 150	$ 110	$ 286	$ 233

The accompanying notes are an integral part of these consolidated financial statements.

PACIFICORP AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)
(Amounts in millions)

	Six-Month Periods Ended June 30, 2010	2009
Cash flows from operating activities:		
Net income	$ 286	$ 236
Adjustments to reconcile net income to net cash flows from operating activities:		
Depreciation and amortization	277	270
Provision for deferred income taxes	75	145
Changes in regulatory assets and liabilities	15	(1)
Other, net	(29)	(22)
Changes in other operating assets and liabilities:		
Accounts receivable and other assets	101	97
Derivative collateral, net	(60)	66
Inventories	(23)	(16)
Income taxes - affiliates, net	253	(7)
Accounts payable and other liabilities	(116)	(25)
Net cash flows from operating activities	779	743
Cash flows from investing activities:		
Capital expenditures	(876)	(1,148)
Purchases of available-for-sale securities	—	(13)
Proceeds from sales of available-for-sale securities	—	24
Other, net	(7)	—
Net cash flows from investing activities	(883)	(1,137)
Cash flows from financing activities:		
Net repayments of short-term debt	—	(85)
Proceeds from long-term debt	—	992
Proceeds from equity contributions	100	—
Preferred stock dividends	(1)	(1)
Repayments and redemptions of long-term debt and capital lease obligations	(1)	(3)
Other, net	(1)	(16)
Net cash flows from financing activities	97	887
Net change in cash and cash equivalents	(7)	493
Cash and cash equivalents at beginning of period	117	59
Cash and cash equivalents at end of period	$ 110	$ 552

The accompanying notes are an integral part of these consolidated financial statements.

PACIFICORP AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (Unaudited)
(Amounts in millions)

	PacifiCorp Shareholders' Equity						
	Preferred Stock	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss), Net	Noncontrolling Interest	Total
Balance, January 1, 2009	$ 41	$ —	$ 4,254	$ 1,694	$ (2)	$ 80	$ 6,067
Net income	—	—	—	233	—	3	236
Other comprehensive loss	—	—	—	—	(1)	—	(1)
Contributions	—	—	—	—	—	17	17
Distributions	—	—	—	—	—	(24)	(24)
Preferred stock dividends declared	—	—	—	(1)	—	—	(1)
Other equity transactions	—	—	—	—	—	6	6
Balance, June 30, 2009	$ 41	$ —	$ 4,254	$ 1,926	$ (3)	$ 82	$ 6,300
Balance, January 1, 2010	$ 41	$ —	$ 4,379	$ 2,234	$ (6)	$ 84	$ 6,732
Deconsolidation of BCC	—	—	—	—	—	(84)	(84)
Net income	—	—	—	286	—	—	286
Other comprehensive income	—	—	—	—	5	—	5
Contributions	—	—	100	—	—	—	100
Preferred stock dividends declared	—	—	—	(1)	—	—	(1)
Balance, June 30, 2010	$ 41	$ —	$ 4,479	$ 2,519	$ (1)	$ —	$ 7,038

The accompanying notes are an integral part of these consolidated financial statements.

PACIFICORP AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)
(Amounts in millions)

	Three-Month Periods Ended June 30,		Six-Month Periods Ended June 30,	
	2010	2009	2010	2009
Net income	$ 150	$ 110	$ 286	$ 236
Other comprehensive income (loss), net of tax -				
Fair value adjustment on cash flow hedges, net of tax of $(1), $-, $3 and $-	(1)	—	5	(1)
Comprehensive income	149	110	291	235
Comprehensive income attributable to noncontrolling interest	—	—	—	3
Comprehensive income attributable to PacifiCorp	$ 149	$ 110	$ 291	$ 232

The accompanying notes are an integral part of these consolidated financial statements.

PACIFICORP AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

(1) General

PacifiCorp, which includes PacifiCorp and its subsidiaries, is a United States regulated electric company serving 1.7 million retail customers, including residential, commercial, industrial and other customers in portions of the states of Utah, Oregon, Wyoming, Washington, Idaho and California. PacifiCorp owns, or has interests in, a number of thermal, hydroelectric, wind-powered and geothermal generating facilities, as well as electric transmission and distribution assets. PacifiCorp also buys and sells electricity on the wholesale market with public and private utilities, energy marketing companies and incorporated municipalities. PacifiCorp is subject to comprehensive state and federal regulation. PacifiCorp's subsidiaries support its electric utility operations by providing coal-mining and environmental remediation services. PacifiCorp is an indirect subsidiary of MidAmerican Energy Holdings Company ("MEHC"), a holding company based in Des Moines, Iowa that owns subsidiaries principally engaged in energy businesses. MEHC is a consolidated subsidiary of Berkshire Hathaway Inc.

The unaudited Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial information and the United States Securities and Exchange Commission's rules and regulations for Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the disclosures required by GAAP for annual financial statements. Management believes the unaudited Consolidated Financial Statements contain all adjustments (consisting only of normal recurring adjustments) considered necessary for the fair presentation of the Consolidated Financial Statements as of June 30, 2010 and for the three- and six-month periods ended June 30, 2010 and 2009. The results of operations for the three- and six-month periods ended June 30, 2010 are not necessarily indicative of the results to be expected for the full year.

The preparation of the unaudited Consolidated Financial Statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the Consolidated Financial Statements and the reported amounts of revenue and expenses during the period. Actual results may differ from the estimates used in preparing the unaudited Consolidated Financial Statements. Note 2 of Notes to Consolidated Financial Statements included in PacifiCorp's Annual Report on Form 10-K for the year ended December 31, 2009 describes the most significant accounting policies used in the preparation of the Consolidated Financial Statements. There have been no significant changes in PacifiCorp's assumptions regarding significant accounting estimates and policies during the six-month period ended June 30, 2010.

(2) New Accounting Pronouncements

In January 2010, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2010-06 ("ASU No. 2010-06"), which amends FASB Accounting Standards Codification ("ASC") Topic 820, "Fair Value Measurements and Disclosures." ASU No. 2010-06 requires disclosure of (a) the amount of significant transfers into and out of Levels 1 and 2 of the fair value hierarchy and the reasons for those transfers and (b) gross presentation of purchases, sales, issuances and settlements in the Level 3 fair value measurement rollforward. This guidance clarifies that existing fair value measurement disclosures should be presented for each class of assets and liabilities. The existing disclosures about the valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements have also been clarified to ensure such disclosures are presented for the Levels 2 and 3 fair value measurements. PacifiCorp adopted this guidance as of January 1, 2010, with the exception of the disclosure requirement to present purchases, sales, issuances and settlements gross in the Level 3 fair value measurement rollforward, which is effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. The adoption did not have a material impact on PacifiCorp's disclosures included within Notes to Consolidated Financial Statements.

In June 2009, the FASB issued authoritative guidance (which was codified into ASC Topic 810, "Consolidation," with the issuance of ASU No. 2009-17) that requires a primarily qualitative analysis to determine if an enterprise is the primary beneficiary of a variable interest entity. This analysis is based on whether the enterprise has (a) the power to direct the activities of the variable interest entity that most significantly impact the entity's economic performance and (b) the obligation to absorb losses of the entity or the right to receive benefits from the entity that could potentially be significant to the variable interest entity. In addition, enterprises are required to more frequently reassess whether an entity is a variable interest entity and whether the enterprise is the primary beneficiary of the variable interest entity. Finally, the guidance for consolidation or deconsolidation of a variable interest entity is amended and disclosure requirements about an enterprise's involvement with a variable interest entity are enhanced. PacifiCorp adopted this guidance as of January 1, 2010 on a prospective basis. As a result, PacifiCorp's coal mining joint venture, Bridger Coal Company ("BCC"), was deconsolidated and is being accounted for under the equity method of accounting as the power to direct the activities that most significantly impact BCC's economic performance are shared with the joint venture partner. The deconsolidation of BCC resulted in a decrease in assets, liabilities and noncontrolling interest equity as of January 1, 2010 of $192 million, $108 million and $84 million, respectively. These changes included the deconsolidation of: (a) mine reclamation trust funds totaling $79 million; (b) property, plant and equipment, net totaling $249 million; and (c) asset retirement obligation liabilities totaling $79 million. Additionally, as a result of PacifiCorp's investment in BCC being accounted for under the equity method, an investment of $168 million was recorded on January 1, 2010.

(3) Property, Plant and Equipment, Net

Property, plant and equipment, net consists of the following (in millions):

	Depreciable Life	As of June 30, 2010	As of December 31, 2009
Property, plant and equipment in service	5-80 years	$ 20,731	$ 20,330
Accumulated depreciation and amortization		(6,539)	(6,623)
Net property, plant and equipment in service		14,192	13,707
Construction work-in-progress		1,673	1,830
Total property, plant and equipment, net		$ 15,865	$ 15,537

(4) Regulatory Matters

Rate Matters

Oregon Senate Bill 408

Oregon Senate Bill 408 ("SB 408") requires PacifiCorp and other large regulated, investor-owned utilities that provide electric or natural gas service to Oregon customers to file an annual report each October with the Oregon Public Utility Commission ("OPUC") comparing income taxes collected and income taxes paid, as defined by the statute and its administrative rules. If after its review, the OPUC determines the amount of income taxes collected differs from the amount of income taxes paid by more than $100,000, the OPUC must require the public utility to establish an automatic adjustment clause to account for the difference.

The OPUC's April 2008 order approving the recovery of $35 million, plus interest, related to PacifiCorp's 2006 tax report is being challenged by the Industrial Customers of Northwest Utilities, which has petitioned the Oregon Court of Appeals for judicial review of, among other things, the application of certain administrative rules considered in the April 2008 order. In July 2010, the Oregon Court of Appeals held oral arguments on the matter. A decision is not expected until 2011, which could impact PacifiCorp's 2006 through 2008 tax reports filed under SB 408. PacifiCorp believes the outcome of these proceedings will not have a material impact on its consolidated financial results. The $35 million, plus interest, was previously recorded in earnings.

In October 2009, PacifiCorp filed its 2008 tax report under SB 408. PacifiCorp's filing for the 2008 tax year indicated that PacifiCorp paid $38 million more in income taxes than was collected in rates from its retail customers. In January 2010, PacifiCorp entered into a stipulation with OPUC staff and the Citizens' Utility Board of Oregon, agreeing to a lower recovery totaling $2 million, including interest. In April 2010, the OPUC issued an order adopting the stipulation in its entirety.

(5) Fair Value Measurements

The carrying value of PacifiCorp's cash, certain cash equivalents, receivables, payables, accrued liabilities and short-term borrowings approximate fair value because of the short-term maturity of these instruments. PacifiCorp has various financial assets and liabilities that are measured at fair value on the Consolidated Financial Statements using inputs from the three levels of the fair value hierarchy. A financial asset or liability classification within the hierarchy is determined based on the lowest level input that is significant to the fair value measurement. The three levels are as follows:

- Level 1 - Inputs are unadjusted quoted prices in active markets for identical assets or liabilities that PacifiCorp has the ability to access at the measurement date.
- Level 2 - Inputs include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability and inputs that are derived principally from or corroborated by observable market data by correlation or other means (market corroborated inputs).
- Level 3 - Unobservable inputs reflect PacifiCorp's judgments about the assumptions market participants would use in pricing the asset or liability since limited market data exists. PacifiCorp develops these inputs based on the best information available, including its own data.

The following table presents PacifiCorp's assets and liabilities recognized on the Consolidated Balance Sheets and measured at fair value on a recurring basis (in millions):

	Input Levels for Fair Value Measurements				
	Level 1	Level 2	Level 3	Other(1)	Total
As of June 30, 2010					
Assets:					
Investments in available-for-sale securities -					
Money market mutual funds(2)	$ 105	$ —	$ —	$ —	$ 105
Investments in trading securities -					
Investment funds(3)	9	—	—	—	9
Commodity derivatives	—	347	4	(212)	139
	$ 114	$ 347	$ 4	$ (212)	$ 253
Liabilities:					
Commodity derivatives	$ —	$ (420)	$ (410)	$ 297	$ (533)
As of December 31, 2009					
Assets:					
Investments in available-for-sale securities:					
Money market mutual funds(2)	$ 123	$ —	$ —	$ —	$ 123
Debt securities	1	33	—	—	34
Equity securities	36	8	—	—	44
Commodity derivatives	—	285	6	(140)	151
	$ 160	$ 326	$ 6	$ (140)	$ 352
Liabilities:					
Commodity derivatives	$ —	$ (274)	$ (386)	$ 165	$ (495)

(1) Primarily represents netting under master netting arrangements and a net cash collateral receivable of $85 million and $25 million as of June 30, 2010 and December 31, 2009, respectively.

(2) Amounts are included in cash and cash equivalents, other current assets and investments and other assets on the Consolidated Balance Sheets. The fair value of these money market mutual funds approximates cost.

(3)

Investment funds are comprised of 40% United States government obligations, 29% corporate obligations, 20% United States equity securities and 11% international equity securities.

PacifiCorp's investments in money market mutual funds and debt and equity securities are accounted for as either available-for-sale or as trading securities and are stated at fair value. When available, a readily observable quoted market price or net asset value of an identical security in an active market is used to record the fair value. In the absence of a quoted market price or net asset value of an identical security, the fair value is determined using pricing models or net asset values based on observable market inputs and quoted market prices of securities with similar characteristics.

When available, the fair value of derivative contracts is determined using unadjusted quoted prices for identical contracts. When quoted prices for identical contracts are not available, PacifiCorp uses forward price curves derived from market price quotations, when available, or internally developed and commercial models, with internal and external fundamental data inputs. Market price quotations are obtained from independent energy brokers, exchanges, direct communication with market participants and actual transactions executed by PacifiCorp. Market price quotations for certain major electricity and natural gas trading hubs are generally readily obtainable for the first six years; therefore, PacifiCorp's forward price curves for those locations and periods reflect observable market quotes. Market price quotations for other electricity and natural gas trading hubs are not as readily obtainable for the first six years. Given that limited market data exists for these contracts, as well as for those contracts that are not actively traded, PacifiCorp uses forward price curves derived from internal models based on perceived pricing relationships to major trading hubs that are based on significant unobservable inputs. Refer to Note 6 for further discussion regarding PacifiCorp's risk management and hedging activities.

Contracts with explicit or embedded optionality are valued by separating each contract into its physical and financial forward, swap and option components. Forward and swap components are valued against the appropriate forward price curve. Option components are valued using Black-Scholes-type models, such as European option, Asian option, spread option and best-of option, with the appropriate forward price curve and other inputs.

The following table reconciles the beginning and ending balances of PacifiCorp's commodity derivative assets and liabilities measured at fair value on a recurring basis using significant Level 3 inputs (in millions):

	Three-Month Periods Ended June 30,		Six-Month Periods Ended June 30,	
	2010	2009	2010	2009
Beginning balance	$ (409)	$ (452)	$ (380)	$ (408)
Changes in fair value recognized in regulatory assets	(21)	46	(52)	29
Purchases, sales, issuances and settlements	24	19	26	13
Net transfers (to) from Level 2	—	(2)	—	(23)
Ending balance	$ (406)	$ (389)	$ (406)	$ (389)

PacifiCorp's long-term debt is carried at cost on the Consolidated Financial Statements. The fair value of PacifiCorp's long-term debt has been estimated based upon quoted market prices, where available, or at the present value of future cash flows discounted at rates consistent with comparable maturities with similar credit risks. The carrying value of PacifiCorp's variable-rate long-term debt approximates fair value because of the frequent repricing of these instruments at market rates. The following table presents the carrying value and estimated fair value of PacifiCorp's long-term debt (in millions):

	As of June 30, 2010		As of December 31, 2009	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Long-term debt	$ 6,357	$ 7,312	$ 6,357	$ 6,843

(6) Risk Management and Hedging Activities

PacifiCorp is exposed to the impact of market fluctuations in commodity prices and interest rates. PacifiCorp is principally exposed to electricity and natural gas commodity price risk as it has an obligation to serve retail customer load in its regulated service territories. PacifiCorp's load and generation assets represent substantial underlying commodity positions. Exposures to commodity prices consist mainly of variations in the price of fuel required to generate electricity and wholesale electricity that is purchased and sold. Electricity and natural gas prices are subject to wide price swings as supply and demand for these commodities are impacted by, among many other unpredictable items, changing weather, market liquidity, generating facility availability, customer usage, storage and transmission and transportation constraints. Interest rate risk exists on variable-rate debt, commercial paper and future debt issuances. PacifiCorp does not engage in a material amount of proprietary trading activities.

PacifiCorp has established a risk management process that is designed to identify, assess, monitor, report, manage and mitigate each of the various types of risk involved in its business. To mitigate a portion of its commodity risk, PacifiCorp uses commodity derivative contracts, including forwards, futures, options, swaps and other agreements, to effectively secure future supply or sell future production generally at fixed prices. PacifiCorp manages its interest rate risk by limiting its exposure to variable interest rates and by monitoring market changes in interest rates. PacifiCorp may from time to time enter into interest rate derivative contracts, such as interest rate swaps or locks to mitigate PacifiCorp's exposure to interest rate risk. No interest rate derivatives were in place during the periods presented. PacifiCorp does not hedge all of its commodity price and interest rate risks, thereby exposing the unhedged portion to changes in market prices.

There have been no significant changes in PacifiCorp's accounting policies related to derivatives. Refer to Note 5 for additional information on derivative contracts.

The following table, which excludes contracts that qualify for the normal purchases or normal sales exception afforded by GAAP, summarizes the fair value of PacifiCorp's derivative contracts, on a gross basis, and reconciles those amounts to the amounts presented on a net basis on the Consolidated Balance Sheets (in millions):

	Derivative Assets		Derivative Liabilities		
	Current	Noncurrent	Current	Noncurrent	Total
As of June 30, 2010:					
Not Designated as Hedging Contracts (1) (2):					
Commodity assets	$ 215	$ 30	$ 41	$ 55	$ 341
Commodity liabilities	(56)	(8)	(206)	(558)	(828)
Total	159	22	(165)	(503)	(487)
Designated as Cash Flow Hedging Contracts (1):					
Commodity assets	9	—	1	—	10
Commodity liabilities	(2)	—	—	—	(2)
Total	7	—	1	—	8
Total derivatives	166	22	(164)	(503)	(479)
Cash collateral (payable) receivable	(49)	—	84	50	85
Total derivatives - net basis	$ 117	$ 22	$ (80)	$ (453)	$ (394)
As of December 31, 2009:					
Not Designated as Hedging Contracts (1) (2):					
Commodity assets	$ 191	$ 61	$ 8	$ 31	$ 291
Commodity liabilities	(29)	(17)	(142)	(472)	(660)
Total	162	44	(134)	(441)	(369)
Designated as Cash Flow Hedging Contracts (1):					
Commodity assets	—	—	—	—	—
Commodity liabilities	—	—	—	—	—
Total	—	—	—	—	—
Total derivatives	162	44	(134)	(441)	(369)
Cash collateral (payable) receivable	(54)	(1)	49	31	25
Total derivatives - net basis	$ 108	$ 43	$ (85)	$ (410)	$ (344)

(1) Derivative contracts within these categories subject to master netting arrangements are presented on a net basis on the Consolidated Balance Sheets.

(2) PacifiCorp's commodity derivatives not designated as hedging contracts are generally included in regulated rates and as of June 30, 2010 and December 31, 2009, net regulatory assets of $482 million and $367 million, respectively, were recorded related to the net derivative liabilities of $487 million and $369 million, respectively.

Not Designated as Hedging Contracts

For PacifiCorp's commodity derivatives not designated as hedging contracts, the settled amount is generally included in regulated rates. Accordingly, the net unrealized gains and losses associated with interim price movements on contracts that are accounted for as derivatives and probable of inclusion in regulated rates are recorded as net regulatory assets. The following table reconciles the beginning and ending balances of PacifiCorp's net regulatory assets and summarizes the pre-tax gains and losses on commodity derivative contracts recognized in net regulatory assets, as well as amounts reclassified to earnings (in millions):

	Three-Month Periods Ended June 30,		Six-Month Periods Ended June 30,	
	2010	2009	2010	2009
Beginning balance	$ 429	$ 385	$ 367	$ 442
Changes in fair value recognized in net regulatory assets	41	(89)	73	(162)
Gains reclassified to earnings - operating revenue	20	59	41	138
Gains (losses) reclassified to earnings - energy costs	(8)	(53)	1	(116)
Ending balance	$ 482	$ 302	$ 482	$ 302

For PacifiCorp's derivatives not designated as hedging contracts and for which changes in fair value are not recorded as a net regulatory asset or liability, unrealized gains and losses are recognized on the Consolidated Statements of Operations as operating revenue for sales contracts, energy costs and operations and maintenance for purchase contracts and electricity and natural gas swap contracts and interest expense for interest rate derivatives. The following table summarizes the pre-tax gains (losses) included on the Consolidated Statements of Operations associated with PacifiCorp's derivative contracts not designated as hedging contracts and not recorded as a net regulatory asset or liability (in millions):

	Three-Month Periods Ended June 30,		Six-Month Periods Ended June 30,	
	2010	2009	2010	2009
Commodity derivatives:				
Operating revenue	$ 1	$ 2	$ 1	$ 5
Energy costs	(4)	1	(5)	1
Operations and maintenance	(2)	2	(1)	1
Total	$ (5)	$ 5	$ (5)	$ 7

Designated as Cash Flow Hedging Contracts

PacifiCorp uses derivative contracts accounted for as cash flow hedges to hedge electricity and natural gas commodity prices. The following table reconciles the beginning and ending balances of PacifiCorp's accumulated other comprehensive (income) loss (pre-tax) and summarizes pre-tax gains and losses on commodity derivative contracts designated and qualifying as cash flow hedges recognized in other comprehensive income ("OCI"), as well as amounts reclassified to earnings (in millions):

	Three-Month Periods Ended June 30,		Six-Month Periods Ended June 30,	
	2010	2009	2010	2009
Beginning balance	$ (10)	$ 1	$ —	$ —
(Gains) losses recognized in OCI	—	—	(10)	1
Gains reclassified to earnings - revenue	2	—	2	—
Ending balance	$ (8)	$ 1	$ (8)	$ 1

Hedge ineffectiveness is recognized in income as operating revenue or energy costs depending upon the nature of the item being hedged. For the three- and six-month periods ended June 30, 2010 and 2009, hedge ineffectiveness was insignificant. As of June 30, 2010, PacifiCorp had cash flow hedges with expiration dates extending through December 31, 2010 and $8 million of pre-tax net unrealized gains forecasted to be reclassified from accumulated other comprehensive income into earnings as the contracts settle through December 31, 2010.

Derivative Contract Volumes

The following table summarizes the net notional amounts of outstanding derivative contracts with fixed price terms that comprise the mark-to-market values as of June 30 (in millions):

	Unit of Measure	2010	2009
Commodity contracts:			
Electricity sales	Megawatt hours	(18)	(21)
Natural gas purchases	Decatherms	180	215
Fuel purchases	Gallons	7	4

Credit Risk

PacifiCorp extends unsecured credit to other utilities, energy marketers, financial institutions and other market participants in conjunction with wholesale energy supply and marketing activities. Credit risk relates to the risk of loss that might occur as a result of nonperformance by counterparties on their contractual obligations to make or take delivery of electricity, natural gas or other commodities and to make financial settlements of these obligations. Credit risk may be concentrated to the extent that one or more groups of counterparties have similar economic, industry or other characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in market or other conditions. In addition, credit risk includes not only the risk that a counterparty may default due to circumstances relating directly to it, but also the risk that a counterparty may default due to circumstances involving other market participants that have a direct or indirect relationship with the counterparty.

PacifiCorp analyzes the financial condition of each significant wholesale counterparty before entering into any transactions, establishes limits on the amount of unsecured credit to be extended to each counterparty and evaluates the appropriateness of unsecured credit limits on an ongoing basis. To mitigate exposure to the financial risks of wholesale counterparties, PacifiCorp enters into netting and collateral arrangements that may include margining and cross-product netting agreements and obtains third-party guarantees, letters of credit and cash deposits. Counterparties may be assessed interest fees for delayed payments. If required, PacifiCorp exercises rights under these arrangements, including calling on the counterparty's credit support arrangement.

Collateral and Contingent Features

In accordance with industry practice, certain derivative contracts contain provisions that require PacifiCorp to maintain specific credit ratings from one or more of the major credit rating agencies on its unsecured debt. These derivative contracts may either specifically provide bilateral rights to demand cash or other security if credit exposures on a net basis exceed specified rating-dependent threshold levels ("credit-risk-related contingent features") or provide the right for counterparties to demand "adequate assurance" in the event of a material adverse change in PacifiCorp's creditworthiness. These rights can vary by contract and by counterparty. As of June 30, 2010, PacifiCorp's credit ratings from the three recognized credit rating agencies were investment grade.

The aggregate fair value of PacifiCorp's derivative contracts in liability positions with specific credit-risk-related contingent features totaled $480 million and $353 million as of June 30, 2010 and December 31, 2009, respectively, for which PacifiCorp had posted collateral of $134 million and $80 million, respectively. If all credit-risk-related contingent features for derivative contracts in liability positions had been triggered as of June 30, 2010 and December 31, 2009, PacifiCorp would have been required to post $148 million and $159 million, respectively, of additional collateral. PacifiCorp's collateral requirements could fluctuate considerably due to market price volatility, changes in credit ratings or other factors.

(7) Employee Benefit Plans

Net periodic benefit cost for the pension and other postretirement benefit plans included the following components (in millions):

	Three-Month Periods Ended June 30,		Six-Month Periods Ended June 30,	
	2010	2009	2010	2009
Pension:				
Service cost[(1)]	$ 3	$ 4	$ 6	$ 8
Interest cost	16	17	33	35
Expected return on plan assets	(19)	(17)	(37)	(35)
Net amortization	6	2	12	5
Net amortization of regulatory assets	(2)	(2)	(5)	(4)
Net periodic benefit cost	$ 4	$ 4	$ 9	$ 9

	Three-Month Periods Ended June 30,		Six-Month Periods Ended June 30,	
	2010	2009	2010	2009
Other postretirement:				
Service cost[(1)]	$ 2	$ 1	$ 3	$ 2
Interest cost	8	8	16	16
Expected return on plan assets	(8)	(7)	(15)	(14)
Net amortization	3	3	7	6
Net amortization of regulatory assets	—	—	—	1
Net periodic benefit cost	$ 5	$ 5	$ 11	$ 11

(1) Service cost excludes $3 million and $2 million of contributions to the joint trust union plans during the three-month periods ended June 30, 2010 and 2009, respectively. Service cost excludes $6 million of contributions to the joint trust union plans during each of the six-month periods ended June 30, 2010 and 2009.

Employer contributions to the pension, other postretirement benefit and joint trust union plans are expected to be $117 million, $25 million and $12 million, respectively, during 2010. As of June 30, 2010, $115 million, $12 million and $6 million of contributions had been made to the pension, other postretirement benefit and joint trust union plans, respectively.

In March 2010, the President signed into law healthcare reform legislation that included provisions to eliminate the tax deductibility of other postretirement costs to the extent of retiree drug subsidies received from the federal government beginning after December 31, 2012. Accordingly, PacifiCorp increased deferred income tax liabilities and regulatory assets by $39 million. PacifiCorp filed applications with various state regulatory commissions for recovery of the $16 million of the adjustment that related to income tax benefits associated with amounts previously recognized as net periodic benefit costs. The remaining $23 million of the adjustment relates to income tax benefits that will no longer be realized in the future when the net periodic benefit cost is recognized and for which recovery of the resulting higher future income tax expense will be addressed through on-going ratemaking proceedings.