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Portland, Oregon 97232
(503) 464-5000

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IDAHO PUBLIC
UTILITIES COMMISSION



January 17, 2003

Idaho Public Utility Commission
Statehouse
472 West Washington Street
Boise, ID 83720

PAC-E-03-01

ATTN: Ms. Jean D. Jewell
Commission Secretary

Re: CASE NOS. U-1046-129, U-1046-159, U-1046-163, PAC-S-90-4, PAC-S-92-4 AND PAC-S-95-2:

In the matter of the Supplemental Application of PACIFICORP for Pollution Control Revenue Bond authority in Case Nos. U-1046-129, U-1046-159, U-1046-163, PAC-S-90-4, PAC-S-92-4 and PAC-S-95-2.

Dear Commissioners:

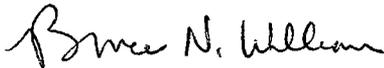
PacifiCorp (Company) respectfully requests that the Commission enter its order, effective upon issuance, authorizing the Company to (1) amend and restate certain trust indentures, loan agreements and related documents entered into pursuant to Order Nos. 18169 in Case No. U-1046-129, 20937 in Case No. U-1046-159, 21666 in Case No. U-1046-163, 23468 in Case No. PAC-S-90-4, 24479 in Case No. PAC-S-92-4, and 26039 in Case No. PAC-S-95-2 to make them generally consistent with those entered into under Order No. 25443 in Case No. PAC-S-94-1, (2) enter into such other agreements or arrangements with the issuers of the related Pollution Control Revenue Bonds (Applicable Bonds) and with other entities as may be reasonably necessary to effect the borrowings and to provide credit enhancement for the Applicable Bonds, including the issuance of the Company's First Mortgage Bonds as collateral for the Applicable Bonds, and (3) replace or modify from time to time the credit enhancement arrangements supporting the Applicable Bonds.

The Company believes that these changes are necessary in order for the Company to achieve more cost-effective financing terms for the Applicable Bonds. The Company is not seeking authorization to increase the aggregate principal amount of the Applicable Bonds.

PacifiCorp respectfully requests that the Commission issue its order on or before February 28, 2003, in lieu of within 30 days after the filing of the enclosed application as required by *Idaho Code* §61-904. PacifiCorp respectfully requests twenty certified copies of any order issued in this matter. Notice of this Application will be published within seven days as required by the Commission's Rules of Procedure. A check in the amount of the application fee will be sent under separate cover.

Your attention to this matter is appreciated.

Sincerely,



Bruce N. Williams
Treasurer

Enclosures: Application (1 original and 4 copies)
 Proposed Form of Order (1 original and 4 copies)
 Diskette containing the proposed Form of Order

CC: T. Carlock

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

CASE NO. U-1046-129
CASE NO. U-1046-159
CASE NO. U-1046-163
CASE NO. PAC-S-90-4
CASE NO. PAC-S-92-4
CASE NO. PAC-S-95-2

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IDAHO PUBLIC UTILITIES COMMISSION

In the Matter of the Supplemental Application)
of PACIFICORP for Pollution Control Revenue) SUPPLEMENTAL
Bond authority in Case Nos. U-1046-129,) APPLICATION
U-1046-159, U-1046-163, PAC-S-90-4,)
PAC-S-92-4 and PAC-S-95-2)

PacifiCorp (Company) hereby applies for an order of the Idaho Public Utilities Commission (Commission) amending the following orders (Orders): Order No. 18169 in Case No. U-1046-129, dated July 8, 1983 (1983 Order); Order No. 20937 in Case No. U-1046-159, dated December 23, 1986 (1986 Order); Order No. 21666 in Case No. U-1046-163, dated January 4, 1988 (1988 Order); Order No. 23468 in Case No. PAC-S-90-4, dated December 20, 1990 (1990 Order); Order No. 24479 in Case No. PAC-S-92-4, dated September 2, 1992 (1992 Order); and Order No. 26039 in Case No. PAC-S-95-2, dated May 30, 1995 (1995 Order).

The Orders generally authorized the Company to (1) borrow the proceeds of not more than \$850,000,000 aggregate principal amount of Pollution Control Revenue Bonds (Bonds) to be issued by certain counties or municipalities (Issuers)¹ and (2) enter into such agreements or

¹ The 1983 Order authorized the Company to borrow the proceeds of not more than \$300,000,000 of Bonds to be issued by Sweetwater County, Wyoming. The 1986 Order authorized the Company to borrow the proceeds of not more than \$20,000,000 of Bonds to be issued by the City of Forsyth, Montana. The 1988 Order authorized the Company to borrow not more than \$165,000,000 to be issued by Sweetwater and Converse Counties, Wyoming and the Cities of Forsyth, Montana and Gillette, Wyoming. The 1990 Order authorized the Company to borrow the proceeds of not more than \$90,000,000 of Bonds to be issued by Emery County,

arrangements with the Issuers and with other entities as may be reasonably necessary to effect the borrowings and to provide credit enhancement for the Bonds.

Of the Bonds, \$150,925,000 aggregate principal amount (Applicable Bonds) were issued in nine series pursuant to nine separate trust indentures (Trust Indentures) between the respective Issuers and trustees, and the proceeds of the issuances were borrowed by the Company pursuant to nine separate loan agreements (Loan Agreements) between the respective Issuers and the Company.² As set forth in greater detail in the Orders, the borrowings were made to finance, or refinance, the cost of pollution control, solid waste disposal and sewage facilities (Facilities) at certain of the Company's electric generating plants.

In Order No. 25443 in Case No. PAC-S-94-1, dated March 22, 1994 (1994 Order), the Commission authorized the Company to (1) borrow the proceeds of certain series of Pollution Control Revenue Refunding Bonds (1994 Refunding Bonds) to be issued by various counties

Utah; and Lincoln County, Wyoming. The 1992 Order authorized the Company to issue not more than \$150,000,000 of Bonds to be issued by Emery County, Utah; Lincoln, Sweetwater and Converse Counties, Wyoming; and Moffat County, Colorado. The 1995 Order authorized the Company to issue not more than \$125,000,000 of Bonds to be issued by Emery and Carbon Counties, Utah; Lincoln, Sweetwater, Converse and Campbell Counties, Wyoming; Moffat and Routt Counties, Colorado; and Lewis County, Washington.

² The nine series of Applicable Bonds and the aggregate principal amount of each series are as follows: (i) \$15,000,000 Pollution Control Revenue Bonds (Series 1984) issued by Sweetwater County, Wyoming; (ii) \$8,500,000 Flexible Rate Demand Pollution Control Revenue Bonds (Series 1986) issued by the City of Forsyth, Montana; (iii) \$17,000,000 Customized Purchase Pollution Control Revenue Refunding Bonds (Series 1988) issued by Converse County, Wyoming; (iv) \$45,000,000 Pollution Control Revenue Refunding Bonds (Series 1991) issued by Lincoln County, Wyoming; (v) \$9,335,000 Pollution Control Revenue Refunding Bonds (Series 1992A) issued by Sweetwater County, Wyoming; (vi) \$6,305,000 Pollution Control Revenue Refunding Bonds (Series 1992B) issued by Sweetwater County, Wyoming; (vii) \$22,485,000 Pollution Control Revenue Refunding Bonds (Series 1992) issued by Converse County, Wyoming; (viii) \$5,300,000 Environmental Improvement Revenue Bonds (Series 1995) issued by Converse County, Wyoming; and (ix) \$22,000,000 Environmental Improvement Revenue Bonds (Series 1995) issued by Lincoln County, Wyoming.

(1994 Issuers),³ (2) enter into such agreements or arrangements as may be reasonably necessary to effect the borrowings and to provide credit enhancement for the 1994 Refunding Bonds, including the issuance of the Company's First Mortgage Bonds (First Mortgage Bonds), and (3) replace or modify from time to time the credit enhancement arrangements supporting the 1994 Refunding Bonds. The 1994 Refunding Bonds were issued pursuant to separate trust indentures (1994 Trust Indentures) between the respective 1994 Issuers and a trustee, and the proceeds of the issuances were borrowed by the Company pursuant to separate loan agreements (1994 Loan Agreements) between the respective 1994 Issuers and the Company. (See Exhibits F and G.)

With this application, the Company requests amendments to the Orders authorizing the Company to (1) amend and restate the Trust Indentures, Loan Agreements and related documents pertaining to the Applicable Bonds to make them generally consistent with those entered into pursuant to the 1994 Order, (2) enter into such other agreements or arrangements with other entities as may reasonably be necessary to effect the borrowings and to provide credit enhancement for the Applicable Bonds, including the issuance of First Mortgage Bonds as collateral for the Applicable Bonds, and (3) replace or modify from time to time the credit enhancement arrangements supporting the Applicable Bonds.

The Company believes that these changes are necessary in order for the Company to achieve more cost-effective financing terms for the Applicable Bonds. The Company is not seeking authorization to increase the \$150,925,000 aggregate principal amount of the Applicable Bonds or to change the basic terms of the financings set forth in the Orders.

³ The 1994 Order authorized the Company to borrow the proceeds of not more than \$225,000,000 of 1994 Refunding Bonds to be issued by Emery and Carbon Counties, Utah; Lincoln, Sweetwater, and Converse Counties, Wyoming; and Moffat County, Colorado.

This application is filed pursuant to Chapter 9, Title 61, of the *Idaho Code* and Section 14 of the Commission's Rules of Practice and Procedure.

The Company respectfully represents that:

- (a) The Official Name of the Applicant and Address of Its Principal Business Office.

PacifiCorp
Suite 2000
825 N.E. Multnomah
Portland, OR 97232

- (b) The State and Date of Incorporation; each State in Which It Operates as a Utility.

The Company was incorporated under Oregon law in August 1987 for the purpose of facilitating consummation of a merger with Utah Power & Light Company, a Utah corporation, and changing the state of incorporation of the Company from Maine to Oregon. The Company uses the assumed business names of Pacific Power & Light Company and Utah Power & Light Company within their respective service territories located in the states of California, Idaho, Oregon, Utah, Washington and Wyoming.

- (c) The Name, Address, and Telephone Number of Persons Authorized to Receive Notices and Communications.

Bruce N. Williams, Treasurer
PacifiCorp
825 N.E. Multnomah, Suite 1900
Portland, OR 97232
Telephone: (503) 813-5662

The Commission is also requested to dispatch copies of all notices and communications to the following:

John M. Schweitzer
Stoel Rives LLP
900 S.W. Fifth Ave., Suite 2600
Portland, OR 97204-1268
Telephone: (503) 294-9225

Electronic copies of Data Requests should be sent to datarequest@pacificorp.com. Informal inquires may be addressed to Robert C. Lively – Manager, Regulation (801-220-4052).

(d) The Date by which Commission Action is Requested.

By February 28, 2003, in lieu of within 30 days after the filing of this application as required by *Idaho Code* §61-904.

(e) Background.

Pursuant to the Orders, the Applicable Bonds were issued in \$150,925,000 aggregate principal amount in nine series and the proceeds were loaned to the Company. The relevant terms and conditions relating to these borrowings by the Company are set forth in the Orders. However, the Trust Indentures, Loan Agreements and related documents used in 1983, 1986, 1988, 1990, 1992 and 1995 contain a different mechanism for changing interest rate modes from the mechanism contained in the 1994 Trust Indentures, 1994 Loan Agreements and related documents and do not permit the Company to provide security for the Applicable Bonds in the form of First Mortgage Bonds. Therefore, the Company proposes to amend and restate the Trust Indentures, Loan Agreements and related documents pertaining to the Applicable Bonds to make them generally consistent with those entered into pursuant to the 1994 Order. The Company may also enter into agreements with third parties to provide credit enhancement for the Applicable Bonds, including the issuance of up to \$150,925,000 aggregate principal amount of First Mortgage Bonds. As previously disclosed to the Commission, various credit enhancement arrangements have been used by the Company in connection with the issuance of other series of pollution control revenue bonds. At this time, none of the Applicable Bonds are credit enhanced.

(f) Full Description of the Securities Proposed to be Issued.

The Applicable Bonds are consistent with the description contained in the Company's application in Case No. PAC-S-94-1, which is incorporated herein by reference. The Applicable

Bonds would not exceed the \$150,925,000 aggregate principal amount borrowed pursuant to the Orders. Thus, the Company is not proposing to incur additional debt. Only technical changes to the Trust Indentures, Loan Agreements and related documents will be made. The First Mortgage Bonds issued as security for the Applicable Bonds would not exceed the principal amount of Applicable Bonds issued. Maturity of the Applicable Bonds is determined based upon an engineer's certificate verifying the economic life of the Facilities. The Company contemplates extending the maturities of three of the nine series of Applicable Bonds consistent with the economic lives of the Facilities.

(g) Effect of the Transactions.

The proposed transactions will enable the Company to update the Trust Indentures, Loan Agreements and related documents for the Applicable Bonds described in the Orders and to enter into credit enhancement agreements with unrelated third parties, including the issuance of First Mortgage Bonds as security for repayment of the Applicable Bonds.

(h) The Purposes of the Financings.

The purposes of the financings are to permit the Company to finance, or refinance, the Facilities on a cost-effective basis.

(i) Statement That Applications for Authority to Finance Are Required to Be Filed with State Governments.

The Company will file applications with the Idaho Public Utilities Commission, the Public Utility Commission of Oregon and the Washington Utilities and Transportation Commission. The California Public Utilities Commission, the Utah Public Service Commission and the Wyoming Public Service Commission have exempted the Company from their respective securities and encumbrance approval statutes. The Company will not be required to obtain

authorization from the Securities and Exchange Commission under the Public Utility Holding Company Act of 1935.

(j) A Statement of the Facts Relied upon to Show That the Issuance is Appropriate.

As a public utility, the Company is expected to acquire, construct, improve and maintain sufficient utility facilities to serve its customers adequately and reliably at reasonable cost. The proposed issuances are part of an overall strategy to finance the cost of the Company's facilities, taking into consideration prudent capital ratios, earnings coverage tests and market uncertainties as to the relative merits of the various types of securities the Company could sell or other financing it could arrange.

The proposed arrangements will provide the Company access to funds in the municipal, tax-exempt bond market which are believed to be less costly than other means of financing the Facilities. Given the current capital structure and the condition of the securities markets, the Company believes that the proposed financing arrangements constitute the financing of choice to finance the Facilities.

Accordingly, the proposed financing (1) is for lawful objects within the corporate purposes of the Company, (2) is compatible with the public interest, (3) is necessary or appropriate for or consistent with the proper performance by the Company of its service as a public utility, (4) will not impair its ability to perform that service, and (5) is reasonably necessary or appropriate for these purposes.

(k) A Summary of Rate Changes that Occurred during or after or That Will Become Effective after the Period Described by the Income Statement enclosed as Exhibit I.

Information concerning rate changes is set forth in Item 5, Part II of the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2002, a copy of which is attached.

(l) Exhibits.

The following exhibits are made a part of this application:

Incorporated by reference to:

<u>Exhibit</u>	<u>Case</u>	<u>Exhibit</u>	<u>Description</u>
A	PAC-E-02-4	A	Third Restated Articles of Incorporation effective November 20, 1996, as amended effective November 29, 1999
B	PAC-E-02-4	B	Bylaws, as amended effective November 29, 1999
C			Resolutions of Board of Directors authorizing the proposed issuances
D			1994 Application
E			1994 Order
F			Trust Indenture between Carbon County, Utah and the First National Bank of Chicago dated as of November 1, 1994
G			Loan Agreement between Carbon County, Utah and PacifiCorp dated as of November 1, 1994
H			Balance Sheet, dated September 30, 2002 (Pro forma amounts are not included because debt is not increased)
I			Income Statement, dated September 30, 2002 (Pro forma amounts are not included because debt is not increased)

PRAYER

The Company respectfully requests that the Commission enter its order in this matter, effective upon issuance, authorizing PacifiCorp to (1) amend and restate the Trust Indentures, Loan Agreements and related documents pertaining to the Applicable Bonds to make them generally consistent with those entered into under the 1994 Order, (2) enter into such other agreements or arrangements with the Issuers and with other entities as may be reasonably necessary to effect the borrowings and to provide credit enhancement for the Applicable Bonds, including the issuance of its First Mortgage Bonds as collateral for the Applicable Bonds, and (3) replace or modify from time to time the credit enhancement arrangements supporting the Applicable Bonds.

Dated at Portland, Oregon on January 17, 2003.

PACIFICORP

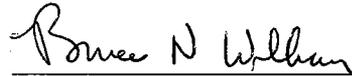
By: Bruce N. Williams
Bruce N. Williams
Treasurer

John M. Schweitzer
John M. Schweitzer for
Steel Rives LLP
900 S.W. Fifth Ave., Suite 2600
Portland, OR 97204-1268
Telephone: (503) 294-9225
Attorneys for PacifiCorp

VERIFICATION

I, Bruce N. Williams, declare, under penalty of perjury, that I am the duly appointed Treasurer of PacifiCorp and am authorized to make this verification. The application and the attached exhibits were prepared at my direction and were read by me. I know the contents of the application and the attached exhibits and they are true, correct, and complete of my own knowledge except those matters stated on information or belief which I believe to be true.

WITNESS my hand and the seal of PacifiCorp on this 17th day of January, 2003.



Bruce N. Williams

(Seal)

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

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In the Matter of the Supplemental)	CASE NO. U-1046-129
Application of PACIFICORP for)	CASE NO. U-1046-159
Pollution Control Revenue Bond)	CASE NO. U-1046-163
authority in Case Nos. U-1046-129, U-)	CASE NO. PAC-S-90-4
1046-159, U-1046-163, PAC-S-90-4,)	CASE NO. PAC-S-92-4
PAC-S-92-4 and PAC-S-95-2)	CASE NO. PAC-S-95-2

ORDER NO. _____

Pursuant to orders previously issued by the Commission,¹ PacifiCorp (Company) was generally authorized to (1) borrow the proceeds of not more than \$850,000,000 aggregate principal amount of Pollution Control Revenue Bonds (Bonds) to be issued by certain counties or municipalities (Issuers)² and (2) enter into such agreements or arrangements with the Issuers and with other entities as may be reasonably necessary to effect the borrowings and to provide credit enhancement for the Bonds. Of the Bonds, \$150,925,000 aggregate principal amount

¹ The applicable orders (Orders) are as follows: Order No. 18169 in Case No. U-1046-129 dated July 8, 1983 (1983 Order); Order No. 20937 in Case No. U-1046-159 dated December 23, 1986 (1986 Order); Order No. 21666 in Case No. U-1046-163 dated January 4, 1988 (1988 Order); Order No. 23468 in Case No. PAC-S-90-4 dated December 20, 1990 (1990 Order); Order No. 24479 in Case No. PAC-S-92-4 dated September 2, 1992 (1992 Order); and Order No. 26039 in Case No. PAC-S-95-2 dated May 30, 1995 (1995 Order).

² The 1983 Order authorized the Company to borrow the proceeds of not more than \$300,000,000 of Bonds to be issued by Sweetwater County, Wyoming. The 1986 Order authorized the Company to borrow the proceeds of not more than \$20,000,000 of Bonds to be issued by the City of Forsyth, Montana. The 1988 Order authorized the Company to borrow not more than \$165,000,000 to be issued by Sweetwater and Converse Counties, Wyoming and the Cities of Forsyth, Montana and Gillette, Wyoming. The 1990 Order authorized the Company to borrow the proceeds of not more than \$90,000,000 of Bonds to be issued by Emery County, Utah; and Lincoln County, Wyoming. The 1992 Order authorized the Company to issue not more than \$150,000,000 of Bonds to be issued by Emery County, Utah; Lincoln, Sweetwater and Converse Counties, Wyoming; and Moffat County, Colorado. The 1995 Order authorized the Company to issue not more than \$125,000,000 of Bonds to be issued by Emery and Carbon Counties, Utah; Lincoln, Sweetwater, Converse and Campbell Counties, Wyoming; Moffat and Routt Counties, Colorado; and Lewis County, Washington.

(Applicable Bonds) were issued in nine series pursuant to nine separate trust indentures (Trust Indentures) between the respective Issuers and trustees, and the proceeds of the issuances were borrowed by the Company pursuant to nine separate loan agreements (Loan Agreements) between the respective Issuers and the Company.³

On January ___, 2003, the Company filed its supplemental application in the named matters pursuant to Chapter 9, Title 61, of the *Idaho Code* and the Commission's Rules of Procedure (IDAPA 31.01.01.141-.150) requesting a supplemental order for authority to (1) amend and restate the Trust Indentures, Loan Agreements and related documents pertaining to the Applicable Bonds to make them generally consistent with those entered into pursuant to Order No. 25443 in Case No. PAC-S-94-1, dated March 22, 1994 (1994 Order),⁴ (2) enter into

³ The nine series of Applicable Bonds and the aggregate principal amount of each series are as follows: (i) \$15,000,000 Pollution Control Revenue Bonds (Series 1984) issued by Sweetwater County, Wyoming; (ii) \$8,500,000 Flexible Rate Demand Pollution Control Revenue Bonds (Series 1986) issued by the City of Forsyth, Montana; (iii) \$17,000,000 Customized Purchase Pollution Control Revenue Refunding Bonds (Series 1988) issued by Converse County, Wyoming; (iv) \$45,000,000 Pollution Control Revenue Refunding Bonds (Series 1991) issued by Lincoln County, Wyoming; (v) \$9,335,000 Pollution Control Revenue Refunding Bonds (Series 1992A) issued by Sweetwater County, Wyoming; (vi) \$6,305,000 Pollution Control Revenue Refunding Bonds (Series 1992B) issued by Sweetwater County, Wyoming; (vii) \$22,485,000 Pollution Control Revenue Refunding Bonds (Series 1992) issued by Converse County, Wyoming; (viii) \$5,300,000 Environmental Improvement Revenue Bonds (Series 1995) issued by Converse County, Wyoming; and (ix) \$22,000,000 Environmental Improvement Revenue Bonds (Series 1995) issued by Lincoln County, Wyoming.

⁴ The 1994 Order authorized the Company to (1) borrow the proceeds of not more than \$225,000,000 of Pollution Control Revenue Refunding Bonds (1994 Refunding Bonds) to be issued by the counties (1994 Issuers) of Emery and Carbon (Utah), Lincoln, Sweetwater and Converse, (Wyoming) and Moffat (Colorado), (2) enter into such agreements or arrangements as may be reasonably necessary to effect the borrowings and to provide credit enhancement for the 1994 Refunding Bonds, including the issuance of the Company's First Mortgage Bonds (First Mortgage Bonds), and (3) replace or modify from time to time the credit enhancement arrangements supporting the 1994 Refunding Bonds. The 1994 Refunding Bonds were issued pursuant to separate trust indentures (1994 Trust Indentures) between the respective 1994 Issuers and a trustee, and the proceeds of the issuances were borrowed by the Company pursuant to

such other agreements or arrangements with the Issuers and with other entities as may be reasonably necessary to effect the borrowings and to provide credit enhancement for the Applicable Bonds, including the issuance of its First Mortgage Bonds as collateral for the Applicable Bonds, and (3) replace or modify from time to time the credit enhancement arrangements supporting the Applicable Bonds.

Company Representations Regarding the Issuance:

As set forth in greater detail in the Orders, the borrowings were made to finance, or refinance, the cost of pollution control, solid waste disposal and sewage facilities (Facilities) at certain of the Company's electric generating plants.

The Company believes that the proposed changes will enable the Company to achieve more cost-effective terms for the Applicable Bonds. The Company is not seeking authorization to increase the \$150,925,000 aggregate principal amount of the Applicable Bonds or to change the basic terms of the financings set forth in the Orders. Only technical changes to the Trust Indentures, Loan Agreements and related documents will be made.

Pursuant to the Orders, the Applicable Bonds were issued in \$150,925,000 aggregate principal amount in nine series and the proceeds were loaned to the Company. The relevant terms and conditions relating to these borrowings by the Company are set forth in the Orders. However, the Trust Indentures, Loan Agreements and related documents used in 1983, 1986, 1988, 1990, 1992 and 1995 contain a different mechanism for changing interest rate modes from the mechanism contained in the 1994 Trust Indentures, 1994 Loan Agreements and related documents and do not permit the Company to provide security for the Applicable Bonds in the form of First Mortgage Bonds. Therefore, the Company proposes to amend and restate the Trust

separate loan agreements (1994 Loan Agreements) between the respective 1994 Issuers and the Company.

Indentures, Loan Agreements and related documents pertaining to the Applicable Bonds to make them generally consistent with those entered into pursuant to the 1994 Order. The Company may also enter into agreements with third parties to provide credit enhancement for the Applicable Bonds, including the issuance of up to \$150,925,000 of First Mortgage Bonds. As previously disclosed to the Commission, various credit enhancement arrangements have been used by the Company in connection with the issuance of other series of pollution control revenue bonds. At this time, none of the Applicable Bonds are credit enhanced.

FINDINGS OF FACT

The Company was incorporated under Oregon law in August 1987 for the purpose of facilitating consummation of a merger with Utah Power & Light Company, a Utah corporation, and changing the state of incorporation of PacifiCorp from Maine to Oregon. The Company uses the assumed business names of Pacific Power & Light Company and Utah Power & Light Company within their respective service territories located in the states of California, Idaho, Oregon, Utah, Washington and Wyoming.

The Company has paid the fees required by *Idaho Code* §61-905.

CONCLUSIONS OF LAW

The Company is an electrical corporation within the definition of *Idaho Code* §61-119 and is a public utility within the definition of *Idaho Code* §61-129.

The Idaho Public Utilities Commission has jurisdiction over this matter pursuant to the provisions of *Idaho Code* §61-901 et seq., and the Application reasonably conforms to Rules 141 through 150 of the Commission's Rules of Procedure (IDAPA 31.01.01.141-.150).

The method of issuance is proper.

The general purposes to which the proceeds will be put are lawful purposes under the Public Utility Law of the State of Idaho and are compatible with the public interest. However, this general approval of the general purposes to which the proceeds will be put is neither a finding of fact nor a conclusion of law that any particular construction program of the Company which may be benefited by the approval of this Application has been considered or approved by this Order, and this Order shall not be construed to that effect.

The issuance of an Order authorizing the proposed financing does not constitute agency determination/approval of the type of financing or the related costs for ratemaking purposes, which determination the Commission expressly reserves until the appropriate proceeding.

The Application should be approved.

ORDER

IT IS THEREFORE ORDERED that the application of PacifiCorp to (1) amend and restate the Trust Indentures, Loan Agreements and related documents pertaining to the Applicable Bonds to make them generally consistent with those entered into pursuant to the 1994 Order, (2) enter into such other agreements or arrangements with the Issuers and with other entities as may be reasonably necessary to effect the borrowings and to provide credit enhancement for the Applicable Bonds, including the issuance of its First Mortgage Bonds as collateral for the Applicable Bonds, and (3) replace or modify from time to time the credit enhancement arrangements supporting the Applicable Bonds is hereby granted.

IT IS FURTHER ORDERED that, except as modified above, the authorities granted to PacifiCorp in the Orders shall remain in full force and effect.

IT IS FURTHER ORDERED that this authorization is without prejudice to the regulatory authority of this Commission with respect to rates, service, accounts, valuation, estimates, or

determination of costs, or any other matter that may come before this Commission pursuant to this jurisdiction and authority as provided by law.

IT IS FURTHER ORDERED that nothing in this Order and no provision of Chapter 9, Title 61, *Idaho Code*, or any act or deed done or performed in connection with this Order shall be construed to obligate the State of Idaho to pay or guarantee in any manner whatsoever any security authorized, issued, assumed, or guaranteed under the provisions of Chapter 9, Title 61, *Idaho Code*.

IT IS FURTHER ORDERED that PacifiCorp shall file the following as they become available:

1. The "Report of Securities Issued" required by 18 CFR § 34.10.
2. Verified copies of any agreement entered into pursuant to this Order.
3. Verified copies of any credit enhancement arrangements entered into pursuant to this Order.

IT IS FURTHER ORDERED that issuance of this order does not constitute acceptance of PacifiCorp's exhibits or other material accompanying the Application for any purpose other than the issuance of this Order.

THIS IS A FINAL ORDER. Any person interested in this Order (or in issues finally decided by this order) may petition for reconsideration within twenty-one (21) days of the service date of this Order with regard to any matter decided in this Order. Within seven (7) days after any person has petitioned for reconsideration, any other person may cross-petition for reconsideration in response to issues raised in the petition for reconsideration. See *Idaho Code* §61-626.

DONE by Order of the Idaho Public Utilities Commission at Boise, Idaho, this _____
day of _____, 2003.

PAUL KJELLANDER, President

DENNIS S. HANSEN, Commissioner

MARSHA H. SMITH, Commissioner

ATTEST:

JEAN D. JEWELL, Secretary

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EXHIBIT C

PCRB Obligations

IDAHO PUBLIC
UTILITIES COMMISSION

WHEREAS, the Board of Directors of PacifiCorp (the "Company") has previously authorized the Company to enter into loan and other agreements with respect to various pollution control revenue bond financings (the "PCRB Obligations"), and has delegated various authorities relating to the PCRB Obligations to officers of the Company; and

WHEREAS, from time to time, it becomes necessary or desirable for the Company to change the interest rate mode or other provisions of the PCRB Obligations and to replace the letters of credit or alternate credit enhancement arrangements supporting the PCRB Obligations; and

WHEREAS, due to various changes in officers and office titles, it appears desirable to update and clarify the authorities previously delegated to officers of the Company by the Board of Directors with respect to the PCRB Obligations now, therefore, be it

RESOLVED, that each of the President and Chief Executive Officer, the Senior Vice President and General Counsel, and the Treasurer is hereby authorized, in the Company's name and on its behalf, to negotiate, execute and deliver any agreements, instruments and other documents (including, without limitation, reimbursement or surety agreements) as in the judgment of the officer or officers taking such action may appear desirable or appropriate for the purpose of, from time to time, changing the interest rate mode or other provisions of the PCRB Obligations, or replacing letters of credit or alternate credit enhancement arrangements supporting the PCRB Obligations, and containing such terms and provisions as shall be approved by the officer or officers executing such documents, his, her or their execution thereof to be conclusive evidence of such approval, provided that such arrangements do not increase the principal amount of the Company's liability with respect to the PCRB Obligations; and further

RESOLVED, that the officers of the Company are hereby authorized, in the Company's name and on its behalf, to negotiate, execute and deliver such other agreements and documents and to do and perform all such further acts and things as in the judgment of such officer or officers may be desirable or appropriate in order to fully carry out the intent and accomplish the purposes of the foregoing resolution.

PCRB Obligations; First Mortgage Bonds

WHEREAS, the Board of Directors of PacifiCorp (the "Company"), by resolutions adopted October 17, 2002 (the "October 2002 Resolutions") authorized the officers of the Company to negotiate, execute and deliver any agreements, instruments and other documents as may appear desirable or appropriate for the purpose of changing the interest rate mode or other provisions of the Company's various pollution control revenue bond financings (the "PCRB Obligations"), or of replacing letters of credit or alternate credit enhancement arrangements supporting the PCRB Obligations; and

WHEREAS, it now appears desirable to provide for the issuance of the Company's First Mortgage Bonds in connection with the credit enhancement arrangements for certain of the Company's PCRB Obligations; now, therefore, be it

RESOLVED, that the Board of Directors of the Company hereby authorizes the issuance by the Company, from time to time, of not to exceed \$150,925,000 in aggregate principal amount of one or more new series of its First Mortgage Bonds (the "Bonds") to be issued under, and secured by, the Company's Mortgage and Deed of Trust dated as of January 9, 1989 to Morgan Guaranty Trust Company of New York (JPMorgan Chase Bank (formerly known as The Chase Manhattan Bank), successor), as Trustee, as heretofore amended and supplemented and as it may be further amended and supplemented (the "PacifiCorp Mortgage"); and further

RESOLVED, that the Bonds may be issued in connection with providing credit enhancement for the Company's PCRB Obligations, in such amounts, at such times, at such prices, may bear interest at such variable, floating, or fixed rates, may be redeemable at such redemption prices, mature at such date or dates and have such other terms and characteristics, as shall be fixed by or pursuant to further action or actions of the Board of Directors or an Authorized Officer (as defined below); and further

RESOLVED, that each of the President and Chief Executive Officer, the Chief Financial Officer, the Senior Vice President and General Counsel, and the Treasurer (each, an "Authorized Officer") is hereby authorized, in the Company's name and on its behalf, to negotiate, execute and deliver any agreements, instruments and other documents (including, without limitation, indentures supplemental to the PacifiCorp Mortgage) as in the judgment of the officer or officers taking such action may appear desirable or appropriate for the purpose of, from time to time, issuance of the Bonds in connection with providing credit enhancement for the PCRB Obligations, and containing such terms and provisions as shall be approved by the officer or officers executing such documents, his, her or

EXHIBIT C

their execution thereof to be conclusive evidence of such approval, provided that such arrangements do not increase the principal amount of the Company's liability with respect to the applicable PCRB Obligations; and further

RESOLVED, that the acts of the officers of the Company in filing applications with the Idaho Public Utilities Commission, the Public Utility Commission of Oregon and the Washington Utilities and Transportation Commission, together with various exhibits to said applications, for orders authorizing the issuance and delivery by the Company of the Bonds, are hereby approved, ratified and confirmed; and further

RESOLVED, that the officers of the Company are hereby authorized and directed, in the Company's name and on its behalf, to make any and all such further filings with, and to take any and all such further action in the proceedings before, federal and state regulatory authorities as in the judgment of the officer or officers taking such action may appear desirable or appropriate for the purpose of obtaining any and all such further regulatory approvals, authorizations or consents as may be required to be obtained by the Company in connection with the issuance of the Bonds; and further

RESOLVED, that the officers of the Company are hereby authorized, in the Company's name and on its behalf, to negotiate, execute and deliver such other agreements and documents and to do and perform all such further acts and things as in the judgment of such officer or officers may be desirable or appropriate in order to fully carry out the intent and accomplish the purposes of the foregoing resolutions; and further

RESOLVED, that the October 2002 Resolutions shall remain in full force and effect.

RECEIVED
FILED



BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION
2003 JAN 21 AM 9:51 CASE NO. _____

IDAHO PUBLIC
UTILITIES COMMISSION

In the Matter of the Application of)
PACIFICORP for authority to (1))
borrow the proceeds of not more than)
\$225,000,000 of Pollution Control)
Revenue Refunding Bonds to be issued)
by various Counties, (2) enter into)
such agreements or arrangements with)
the Counties and with other entities)
as may be reasonably necessary to)
effect the borrowings and to provide)
credit enhancement for the Refunding)
Bonds, including the issuance of)
First Mortgage and Collateral Trust)
Bonds, and (3) replace or modify from)
time to time the credit enhancement)
arrangements supporting the Refunding)
Bonds.)

COPY

APPLICATION

PacifiCorp (Company) applies for an order of the Idaho Public Utilities Commission (Commission) authorizing the Company to (1) borrow the proceeds of not more than \$225,000,000 of Pollution Control Revenue Refunding Bonds (Refunding Bonds) to be issued by the Counties of Emery, Utah, Carbon, Utah, Lincoln, Wyoming, Sweetwater, Wyoming, Converse, Wyoming, and Moffat, Colorado (Counties), (2) enter into such agreements or arrangements with the Counties and with other entities as may be reasonably necessary to effect the borrowings and to provide credit enhancement for the Refunding Bonds, including the issuance of its First Mortgage and Collateral Trust Bonds as collateral for the Refunding Bonds, and (3) replace or modify from time to time the credit enhancement arrangements supporting the Refunding Bonds. This application is filed pursuant to Chapter 9, Title 61, of the Idaho Code and Section 14 of the Commission's Rules of Practice and Procedure.

The borrowings will be made in connection with the refunding of up to nine series of outstanding pollution control revenue bonds (Prior Bonds) which were issued

to finance, or refinance, the cost of certain pollution control, solid waste disposal and sewage facilities at the Jim Bridger, Carbon, Dave Johnston, Huntington, Hunter, Naughton and Craig electric generating plants. For a more detailed description, see Exhibit N.

On September 2, 1992, under Case No. PAC-S-92-4, Order No. 24479, the Commission authorized the Company to borrow the proceeds of not more than \$150,000,000 of pollution control revenue refunding bonds to be issued by various counties. Pursuant to that authority, the Company refunded six series of bonds aggregating \$109,325,000. This application is intended to increase and replace the unused authority granted by the Commission under Case No. PAC-S-92-4.

The Company respectfully represents that:

- (a) The official name of the applicant and address of its principal business office:

PacifiCorp
700 N.E. Multnomah, Suite 1600
Portland, OR 97232

- (b) The state and date of incorporation: each state in which it operates as a utility:

The Company was incorporated under Oregon law in August 1987 for the purpose of facilitating consummation of a merger with Utah Power & Light Company, a Utah corporation, and changing the state of incorporation of PacifiCorp from Maine to Oregon. The Company uses the assumed business names of Pacific Power & Light Company and Utah Power & Light Company within their respective service territories located in the states of California, Idaho, Montana, Oregon, Utah, Washington and Wyoming.

- (c) The name, address, and telephone number of persons authorized to receive notices and communications:

Robert F. Lanz, Vice President
PacifiCorp
700 N.E. Multnomah, Suite 1600
Portland, OR 97232
Telephone: (503) 731-2110

The Commission is also requested to dispatch copies of all notices and communications to the following:

John R. Stageberg
PacifiCorp
700 N.E. Multnomah, Suite 1600
Portland, OR 97232
Telephone: (503) 731-2074

John M. Schweitzer
Stoel Rives Boley Jones & Grey
700 N.E. Multnomah, Suite 950
Portland, OR 97232
Telephone: (503) 872-4821

- (d) The date by which Commission action is requested:

March 8, 1994.

- (e) A full description of the securities:

- (1) Type and nature of securities--

The Counties will issue the Refunding Bonds. The Company will enter into an agreement with each of the Counties pursuant to which it will receive the proceeds of such issuance and agree to make payments sufficient to pay principal of, interest on, and premium (if any) on the Refunding Bonds, and to cover certain additional expenses. The aggregate principal amount of the Refunding Bonds will not exceed \$225,000,000. In order to achieve a lower cost of money, the Company also expects to enter into one or more agreements with unrelated third parties, such as commercial banks or insurance companies, to provide further assurance to the purchasers of the Refunding Bonds that the principal of, the interest on, and the premium (if any) on the Refunding Bonds will be paid on a timely basis. These arrangements may involve the issuance of the Company's First Mortgage and Collateral Trust Bonds as collateral for the Refunding Bonds in an

amount not greater than the aggregate principal amount of the Refunding Bonds.

(2) Amount of securities--

Not more than \$225,000,000 aggregate principal amount in several series.

(3) Interest rate--

The interest rate on the Refunding Bonds will vary depending upon the pricing mode selected in marketing the bonds. Pricing modes may include one or more of the following options: daily, weekly, monthly and fixed-rate. See f(2) infra. At February 7, 1994, the daily, weekly, monthly and long-term fixed-rate options for tax exempt bonds (backed with AAA credit enhancement) of the type expected to be issued were approximately 2.10%, 2.25%, 2.40% and 5.40%, respectively.

(4) Dates of issuance and maturity--

Issuance: The Company expects the Refunding Bonds to be issued and the related agreements to be executed not later than December 31, 1995.

Maturity: Maturity will be determined based upon an engineer's certificate verifying the economic life of the qualifying facilities.

(5) Institutional rating of the securities, or, if not rated, an explanation--

It is anticipated that the Refunding Bonds will be supported by a letter of credit or insurance contract from a nationally recognized domestic or foreign bank or other financial institution with one of the two highest ratings available from each rating agency as follows:

<u>Rating Agency</u>	<u>Long-Term Rating</u>	<u>Short-Term Rating</u>
Moody's	Aaa or Aa	A-1
Standard & Poor's	AAA or AA	P-1+

(6) Stock exchange on which listed--

Not applicable.

(7) Additional descriptive information--

The borrowings will be made in connection with the refunding of the Prior Bonds, which were issued by the Counties to finance or refinance air and water pollution control, solid waste disposal and sewage facilities (Facilities) at the Jim Bridger, Carbon, Dave Johnston, Huntington, Hunter, Naughton and Craig plants (Plants). The Facilities consist principally of systems to remove and finally dispose of particulates and sulfur dioxide from flue gases and certain solid and sewage wastes.

To accomplish this refinancing, the Company will apply the gross proceeds from the appropriate issuance of Refunding Bonds to the redemption and cancellation of the aggregate principal amount of the Prior Bonds. Because some of the Prior Bonds have a redemption premium, this premium (as well as the costs of issuance) will be funded from sources other than the proceeds of the Refunding Bonds.

The Prior Bonds issued by Moffat County, Colorado, because of credit quality considerations, required that a debt reserve fund (Reserve Fund) be created as payment security for the bonds. See Exhibit N. The Reserve Fund contains an amount equal to one year's debt service on the bonds and acts as a liquidity device. The amount currently in the Reserve Fund is \$8,202,656. At maturity, the balance in the

Reserve Fund must be used to pay principal, thereby reducing the Company's cash requirements at that time. In the event of redemption, the funds held in the Reserve Fund must be used to redeem the bonds being refunded, thereby reducing the size of the refunding issue.

Wyoming, Utah and Colorado statutes and the Internal Revenue Code permit local governmental agencies to issue bonds, the interest on which is not subject to federal income taxation for most bondholders, for the purpose of refunding obligations issued in respect of the construction of qualified pollution control equipment and solid and sewage waste facilities. The Counties will be asked to adopt appropriate resolutions providing for the issuance of the appropriate series of the Refunding Bonds.

The Company also expects to enter into agreements with a commercial bank or insurance company to provide credit support for the Refunding Bonds. The Company may also issue its First Mortgage and Collateral Trust Bonds as collateral for repayment of the Refunding Bonds, either alone or in conjunction with bank or insurance company credit support. See f(2) infra.

(f) A description of the method of issuance and sale or procedure by which any obligation as guarantor will be assumed:

(1) Method of Issuance - General

The Refunding Bonds will be issued pursuant to Indentures of Trust between the Counties and trustees.

Pursuant to agreements between the Counties and the Company, the proceeds from the sale of the Refunding Bonds, other than refundable

accrued interest, will be loaned to the Company to refund the Prior Bonds, thereby refinancing the Facilities.

Under the agreements, the Company will be obligated to pay absolutely and unconditionally, to the extent sufficient funds are not already in the possession of the trustee, the principal of, the interest on, and the premium (if any) on the Refunding Bonds, as well as certain fees and expenses of the Counties.

Under no circumstances will the Refunding Bonds and their related costs become an obligation of the Counties.

To achieve a lower cost of money, the Company may enter into reimbursement agreements, guarantees, pledges, or other security agreements or arrangements to assure timely payment of amounts due in respect of the Refunding Bonds. For example, a letter of credit may be added in order to support the Refunding Bonds. In connection with a letter of credit, the Company would enter into a reimbursement agreement under which a bank would issue a letter of credit to support payments in respect of the Refunding Bonds. Under the reimbursement agreement, the Company would be required to reimburse each bank for any drawings under its letter of credit. Amounts advanced by a bank under a letter of credit are expected to bear interest based upon various short-term rates. The Company expects that any letter of credit bank will have a long-term credit rating of not less than AA and a short-term rating of not less than A-1/P-1. In the event a letter of credit is obtained, it is expected to have an initial term of three years unless extended by mutual consent of the bank and the

Company or replaced by the Company with another letter of credit or an alternative credit enhancement arrangement.

The fees associated with the credit enhancement arrangement are not expected to exceed 0.75 percent per annum. The Company believes, and its experience in previous tax-exempt financings confirms, that the interest savings from enhancing the credit support for the Refunding Bonds will exceed the cost of the letter of credit or alternative credit arrangements; that is, the effective cost of the Refunding Bonds will be lowered by the credit enhancement arrangements.

Over the life of the Refunding Bonds, it may be necessary or desirable to replace one or more letters of credit or alternative credit enhancement arrangements from time to time as, for example, the credit ratings of the various banks (and thus the Company's interest costs) fluctuate or market rates for letters of credit change. The Company therefore requests authority to substitute, as necessary or desirable from time to time, letters of credit or other credit enhancement arrangements for letters of credit or other credit enhancement arrangements then in effect with respect to the Refunding Bonds.

(2) Expected Terms for the Refunding Bonds

The Refunding Bonds will be issued with floating or fixed interest rates in several series with an aggregate principal amount not to exceed \$225,000,000.

While floating rate Refunding Bonds have a nominal long-term maturity, the obligation will have a "put" feature which enables the holder to tender the bonds at par within a short notice period. Floating rate

Refunding Bonds will be marketed with one or more put frequencies, including, but not limited to, daily, weekly and monthly puts. Because of the put feature, investors are indifferent to the final maturity of the instrument; as a result, the floating rate Refunding Bonds may be structured with the longest maturity justified by the underlying assets being financed, while obtaining rates reflective of short maturities.

In view of the put feature, the Company will enter into an agreement with a remarketing agent who will agree in advance to seek new purchasers for the floating rate Refunding Bonds on a best-efforts basis if and when the bonds are put. To satisfy the investment criteria of potential purchasers, the Company expects to arrange for a letter of credit or insurance contract as a source of credit support and liquidity. For example, a letter of credit will provide amounts required to purchase tendered floating rate Refunding Bonds that have not been successfully remarketed immediately, as well as amounts required for payment of scheduled interest and principal at maturity or through acceleration. The floating rate Refunding Bonds not immediately remarketed may thereafter be sold to other investors.

The floating rate Refunding Bonds' structure may include the selection of one of several tax-exempt market rate pricing modes, including pricing modes as short as daily and as long as annually. The Refunding Bonds may also include an option to convert to a fixed rate mode. The operation of those modes will be described in the official statement for floating rate Refunding Bonds when filed as Exhibit K.

The pricing mode selection will depend upon a number of factors, including expectations as to which mode offers the lowest relative rates at the time of issuance. During the time the floating rate Refunding Bonds carry a floating rate, the bonds would be prepayable at par plus accrued interest at the end of any interest rate period.

Because of historically low interest rates, the Company may choose to issue the Refunding Bonds with fixed interest rates. It is expected that interest payments would be made on a semi-annual basis. The fixed rate Refunding Bonds may include call provisions at fixed prices at future dates. The Company may choose to purchase credit enhancement from insurance companies to achieve lower borrowing costs because the bonds would carry a AAA/Aaa rating. The insurance companies may require the Company to collateralize the Refunding Bonds with the Company's First Mortgage and Collateral Trust Bonds. However, if the anticipated interest savings are not sufficient or the terms relating to the bond insurance are considered to be unduly restrictive, the Company may choose not to obtain insurance and may collateralize the Refunding Bonds with the Company's First Mortgage and Collateral Trust Bonds in an aggregate principal amount not exceeding the principal amount of the Refunding Bonds, thereby providing the Refunding Bonds with a credit rating equal to its senior debt (A/A3). The Commission previously authorized the Company to incur the lien of the PacifiCorp Mortgage in Case No. U-1046-15, Order No. 22157. As in its previous issuances, the Company would expect to issue first mortgage bonds under the Pacific Power Mortgage and Utah Power Mortgage as the basis for the issuance of its First Mortgage and Collateral Trust Bonds. Bonds issued under the Pacific Power and Utah Power Mortgages would

not count toward the maximum amount of bond authority granted in this docket.

The Refunding Bonds are expected to be issued and the related agreements are expected to be executed no later than December 31, 1995. All of the Prior Bonds, except for one series, are currently refundable. See Exhibit N. Refunding Bonds may be issued in advance of the Prior Bonds' redemption date.

(3) Reason for the Refunding

The Company seeks to refund the Prior Bonds in an ongoing effort to reduce its cost of debt. The Prior Bonds bear fixed rates ranging from 5.90% to 10.70%, although the bonds bearing a fixed coupon of 10.70% are not callable until September 1, 1994.

The Prior Bonds are among the Company's highest cost tax-exempt debt. Because tax-exempt interest rates are near historical lows, the Company expects to achieve interest savings, including the effect of the amortization of the redemption premium, if any, and the un-amortized issuance expenses on the Prior Bonds, and may have the possibility of extending maturities of the Prior Bonds, as a result of the refundings. See Exhibit M.

- (g) (1) (i) The name and address of any person receiving a fee (other than a fee for technical services) for negotiating, issuing, or selling the securities or for securing an underwriter, sellers, or purchasers of securities except as related to a competitive bid--
The Refunding Bonds will be sold on a negotiated basis by the Counties to underwriters that will also serve as remarketing agents for any floating rate bonds. The Counties may receive an

issuance fee paid up front and/or annually at an effective rate not expected to exceed 0.125 percent per annum on the principal amount of the Refunding Bonds. The Company will also pay the expenses of the offering incurred by the Counties.

(ii) The Fee Amount--

The underwriting fee is not expected to exceed 1.25 percent of the principal amount of the Refunding Bonds. The annual remarketing fee is not expected to exceed 0.125 percent of the principal amount of the Refunding Bonds.

(iii) The facts showing the reason for and reasonableness of the fees--

The underwriters and remarketing agents will have demonstrated considerable experience in marketing securities of all types and will assist the Counties and the Company in formulating their plans for the offerings. The underwriters will be recognized nationally as effective investment bankers and will be available to the Counties and the Company for consultation on financial matters related to the refundings.

The Company believes that the fee estimates are appropriate for the type of offering and do not exceed the usual and customary fees for similar offerings. The fees to be charged are reasonable given the services supplied.

(iv) Other relevant factors concerning fees --

The fees to be paid by the Company to the trustees, remarketing agents, paying agents, and registrars are not expected to exceed the usual and customary fees for such services.

- (2) All facts showing that the applicant is or is not "controlled" by or is or is not under the common "control" of the person listed in (g)(1)(i).

The Company has no officer or director in common with any investment banker. The Company is not aware of any ownership of its securities that would give "control" over it, directly or indirectly, to any person. The Company is neither directly nor indirectly under control by or under common control with any employees of the Counties or any potential underwriters, dealers, or purchasers of the Refunding Bonds. All issuance terms will be determined by arms-length negotiation.

- (h) The purposes of the financing:

The results of the offering are expected to be as follows:

ESTIMATED RESULTS OF THE FINANCINGS (1)

Proceeds from Refunding Bonds	<u>\$225,000,000</u>
Redemption Premium (2)	\$ 767,575
Issuance Costs:	
Underwriters Fee (1.25 percent) (3)	2,812,500
Other Expenses	<u>5,500,000</u>
Total Costs of the Refundings	<u>\$9,080,075</u>

- (1) As the financings are special purpose financings, the interest on which is exempt from taxation to the holder, the proceeds may be used only to refinance the principal amount of the Prior Bonds issued to finance the Facilities. All issuance costs and redemption premiums associated with the Refunding Bonds must be derived from other capital sources of the Company.
- (2) See Exhibit N.
- (3) Based upon a fixed rate offering.

OTHER EXPENSES

Regulatory Agency Fees	\$ 1,500
Issuer Fees (1)	2,500,000
Trustee Fees	50,000
Company Counsel Fees	150,000
Underwriters' Counsel Fees	200,000
Bond Counsel Fees	200,000
Accountants' Fees	50,000
Credit Enhancement Fees (2)	2,000,000
Rating Agency Fees	100,000
Printing Fees	100,000
Miscellaneous	<u>148,500</u>
Total Other Expenses	<u>\$5,500,000</u>

(1) The Company may be required to pay an Issuer's fee to the Counties to compensate the Counties for providing the Company the opportunity to issue the Refunding Bonds. The Company's past experience indicates that Emery County and Lincoln County will charge such a fee. Sweetwater County and Converse County generally have not charged a fee. At this time, the Company is not familiar with Moffat County's policy regarding such fees. For purposes of this estimated expense, it is assumed that all Counties will require the Company to pay an Issuer's Fee. Issuer's Fees are not expected to exceed an effective cost of 0.125 percent per annum of the principal amount over the life of the Refunding Bonds.

(2) Represents initial commitment fee for bond insurance. If a letter of credit is used, credit enhancement cost is not expected to exceed 0.75 percent per annum.

(i) Statement that applications for authority to finance are required to be filed with state governments.

Applications for authority to enter into the proposed arrangements will be filed with the Idaho Public Utilities Commission, the Montana Public Service Commission, the Oregon Public Utility Commission, the Public Service Commission of Utah, the Washington Utilities and Transportation Commission, and the Wyoming Public Service Commission.

(j) A statement of the facts relied upon to show that the issuance is appropriate:

As a public utility, the Company is expected to acquire, construct, improve and maintain sufficient utility facilities to serve its customers adequately and reliably at reasonable cost. The proposed arrangements are

part of an overall plan to finance the cost of the Facilities taking into consideration prudent capital ratios, earnings coverage tests, market uncertainties and the relative merits of the various types of securities the Company could sell or other financing it could arrange.

The proposed arrangements will provide the Company access to funds in the municipal, tax-exempt bond market which are believed to be less costly than the Prior Bonds issued to finance the Facilities.

Given the current capital structure and the condition of the securities' markets, the Company believes that the proposed refinancing arrangements constitute the financing of choice to fund the Facilities.

Accordingly, the proposed financing (1) is for lawful objects within the corporate purposes of the Company, (2) is compatible with the public interest, (3) is necessary or appropriate for or consistent with the proper performance by the Company of its service as a public utility, (4) will not impair its ability to perform that service, and (5) is reasonably necessary or appropriate for these purposes.

(k) A statement of the bond indenture or other limitations on interest and dividend coverage, and the effects of these limitations on this issuance:

See Exhibit J.

(l) A summary of rate changes which occurred during or after or which will become effective after the period described by the income statement attached as Exhibit E:

In October 1992, FERC accepted a settlement agreement between the Company and certain of its wholesale and wheeling customers. This was the second of three rate filings required as a condition of the merger with Utah

Power & Light Company. The settlement provided for a price reduction of approximately \$2.5 million annually for wholesale customers and contract demand wheeling customers and phased-in price increases for other wheeling customers. The price increase is approximately \$.3 million per year for the years 1992, 1993 and 1994. In May 1993, the Company made the final rate filing required by FERC as a condition of the merger. The Company requested no change in rates. On July 20, 1993, FERC issued a letter accepting the filing and terminating the related docket.

In California the Company has received authorization to increase prices by \$1.0 million effective January 1, 1994. This increase is based on an experimental incentive price mechanism which could be used through 1999.

In the States of Oregon, Washington and Idaho, the Company has received authorization to pass costs associated with a BPA price increase to customers. The annual price increase is \$14.9 million in Oregon, \$4.8 million in Washington, and, in Idaho, \$3.1 million for Pacific Division customers and \$.4 million for Utah Division customers. In Montana the Company filed to pass through \$1.0 million of costs associated with the BPA price increase; an order is pending.

(m) Any other applicable exhibits:

The following exhibits are made a part of this application:

Incorporated by reference to:

<u>Exhibit</u>	<u>Case</u>	<u>Exhibit</u>	<u>Description</u>
A-1			Bylaws, as amended effective November 17, 1993.
A-2	PAC-S-90-1	A-2	Second Restated Articles of Incorporation effective May 25, 1990, as amended through August 1, 1991.
	PAC-S-90-5	A-3	
	PAC-S-91-4	A-4	
A-3	PAC-S-92-5	A-3	Amendments to Second Restated Articles of Incorporation, dated May 22, 1992, June 10, 1992 and June 29, 1992.
B			Resolutions of the Board of Directors or the Board's Finance Committee authorizing the proposed issuance.
C			A statement (1) explaining the measure of control or ownership exercised over the applicant by a utility, bank, trust company, banking association, underwriter, or electrical equipment supplier, and (2) explaining that the applicant is not a member of any holding company system.
D			Balance Sheet, actual and pro forma, dated November 30, 1993.
E			Income Statement, actual and pro forma, for the 12 months ended November 30, 1993.
F			SEC Registration Statement. <u>Not applicable.</u>
G			Public invitation for proposal to purchase or underwrite the proposed issuance. <u>Not applicable.</u>

*Exhibit or supplement to the Exhibit is to be filed as soon as available.

Incorporated by reference to:

<u>Exhibit</u>	<u>Case</u>	<u>Exhibit</u>	<u>Description</u>
H			Copies of each proposal received for a negotiated placement of the offering, a summary tabulation, a list of prospective underwriters from whom no proposal was received, and a justification of the accepted underwriting proposal. <u>Not applicable.</u>
I			Sources and Uses of Treasury Funds. <u>Not applicable.</u>
*J			A statement of the bond indenture or other limitations on interest and dividend coverage, and the effects of those limitations on this issuance.
*K			Official Statement.
*L			Principal Closing Documents for the Bonds.
M			Anticipated interest rate savings of proposed refunding issues.
N			Description of pollution control revenue bonds to be refunded.

*Exhibit or supplement to the Exhibit is to be filed as soon as available.

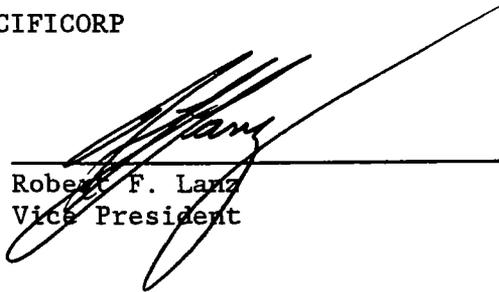
PRAYER

PacifiCorp respectfully requests that the Commission enter its order in this matter, effective upon issuance, authorizing PacifiCorp (1) to borrow the proceeds of not more than \$225,000,000 of Pollution Control Revenue Refunding Bonds (Refunding Bonds) to be issued by various Counties (Counties), (2) to enter into such agreements or arrangements with the Counties and with other entities from time to time as may be reasonably necessary to effect the borrowings and pursuant to which PacifiCorp would assume obligations as guarantor, surety, or otherwise with respect to the payment of the principal of, the interest on, and the premium (if any) on the Refunding Bonds and to enter into such agreements or arrangements as may be necessary to provide credit enhancement for said bonds, including the issuance of its First Mortgage and Collateral Trust Bonds as collateral for the Refunding Bonds, all in connection with the refunding of outstanding Pollution Control Revenue Bonds that were issued to finance, or refinance, certain air and water pollution control, solid waste disposal and sewage facilities at the Jim Bridger, Carbon, Dave Johnston, Huntington, Hunter, Naughton and Craig Generating Plants, and (3) to replace or modify from time to time the credit enhancement arrangements supporting the Refunding Bonds.

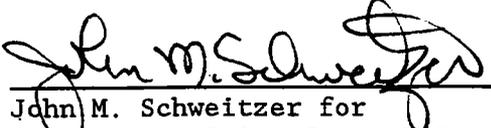
Dated at Portland, Oregon on February 18, 1994.

PACIFICORP

By


Robert F. Lantz
Vice President

By


John M. Schweitzer for
Stoel Rives Boley Jones & Grey
700 N.E. Multnomah, Suite 950
Portland, OR 97232
Telephone: (503) 872-4821
Attorneys for PacifiCorp

VERIFICATION

I, Robert F. Lanz, declare, under penalty of perjury, that I am a duly appointed Vice President of PacifiCorp and am authorized to make this verification. The application and the attached exhibits were prepared at my direction and were read by me. I know the contents of the application and the attached exhibits and they are true, correct, and complete of my own knowledge except those matters stated on information or belief which I believe to be true.

WITNESS my hand and the seal of PacifiCorp on this 18th day of February 1994.



Robert F. Lanz

(Seal)

MAR 22 1994

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BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION OF)
 PACIFICORP FOR AUTHORITY TO (1)) CASE NO. PAC-S-94-1
 BORROW THE PROCEEDS OF NOT MORE)
 THAN \$225,000,000 OF POLLUTION) ORDER NO. 25443
 CONTROL REVENUE REFUNDING BONDS)
 TO BE ISSUED BY VARIOUS COUNTIES,)
 (2) ENTER INTO SUCH AGREEMENTS OR)
 ARRANGEMENTS WITH THE COUNTIES)
 AND WITH OTHER ENTITIES AS MAY BE)
 REASONABLY NECESSARY TO EFFECT)
 THE BORROWINGS AND TO PROVIDE)
 CREDIT ENHANCEMENT FOR THE RE-)
 FUNDING BONDS, INCLUDING THE)
 ISSUANCE OF FIRST MORTGAGE AND)
 COLLATERAL TRUST BONDS, AND (3))
 REPLACE OR MODIFY FROM TIME TO)
 TIME THE CREDIT ENHANCEMENT)
 ARRANGEMENTS SUPPORTING THE)
 REFUNDING BONDS.)

On February 22, 1994, PacifiCorp (Company) filed its Application, pursuant to *Idaho Code* § 61-901 *et seq.*, and Rule 141 (IDAPA 31.01.01141) of the Commission's Rules of Procedure for authority to (1) borrow the proceeds of not more than \$225,000,000 of Pollution Control Revenue Refunding Bonds (Refunding Bonds) to be issued by the Counties of Emery, Carbon (Utah), Lincoln, Sweetwater, Converse (Wyoming), and Moffat, Colorado (Counties), (2) enter into such agreements or arrangements with the Counties and with other entities as may be reasonably necessary to effect the borrowings and to provide credit enhancement for the Refunding Bonds, including the issuance of its First Mortgage and Collateral Trust Bonds as collateral for the Refunding Bonds, and (3) replace or modify from time to time the credit enhancement arrangements supporting the Refund Bonds.

The borrowings will be made in connection with the refunding of up to nine series of outstanding pollution control revenue bonds (Prior Bonds) which were issued

to finance, or refinance, the cost of certain pollution control, solid waste disposal and sewage facilities at the Jim Bridger, Carbon, Dave Johnston, Huntington, Hunter, Naughton and Craig electric generating plants.

On September 2, 1992, under Case No. PAC-S-92-4, Order No. 24479, the Commission authorized the Company to borrow the proceeds of not more than \$150,000,000 of pollution control revenue refunding bonds to be issued by various counties. Pursuant to that authority, the Company refunded six series of bonds aggregating \$109,325,000. This Application is intended to increase and replace the unused authority granted by the Commission under Case No. PAC-S-92-4.

The Commission, having considered the Application and appended exhibits, the information in its files concerning the Company, the applicable law, and being fully advised in the premises, finds and concludes:

FINDINGS OF FACT

The Company was incorporated under Oregon law in August 1987 for the purpose of facilitating consummation of a merger with Utah Power & Light Company, a Utah corporation, and changing the state of incorporation of PacifiCorp from Maine to Oregon. The Company uses the assumed business names of Pacific Power & Light Company and Utah Power & Light Company within their respective service territories located in the states of California, Idaho, Montana, Oregon, Utah, Washington and Wyoming.

Approximately 99% of the Company's direct utility revenues in 1992 were derived from its electric operations and approximately 6% of those revenues were derived from its Idaho operations.

The Counties will issue the Refunding Bonds. The Company will enter into an agreement with the Counties pursuant to which it will receive the proceeds of such issuance and agree to make payments sufficient to pay principal of, interest on, and premium (if any) on the Refunding Bonds, and to cover certain additional expenses. The aggregate principal amount of the Refunding Bonds will not exceed \$225,000,000. In order to achieve the lowest cost of money, the Company also expects to enter into one or more agreements with unrelated third parties, such as

commercial banks or insurance companies, to provide further assurance to the purchasers of the Refunding Bonds that the principal of, the interest on, and the premium (if any) on the Refunding Bonds will be paid on a timely basis. These arrangements may involve the issuance of the Company's First Mortgage and Collateral Trust Bonds as collateral for the Refunding Bonds in an amount not greater than the aggregate principal amount of the Refunding Bonds.

The borrowings will be made in connection with the refunding of the Prior Bonds, which were issued by the Counties to finance or refinance air and water pollution control, solid waste disposal and sewage facilities (Facilities) at the Jim Bridger, Carbon, Dave Johnston, Huntington, Hunter, Naughton and Craig plants (Plants). The Facilities consist principally of systems to remove and finally dispose of particulates and sulfur dioxide from flue gases and certain solid and sewage wastes.

To accomplish this refinancing, the Company will apply the gross proceeds from the appropriate issuance of Refunding Bonds to the redemption and cancellation of the aggregate principal amount of the Prior Bonds. Because some of the Prior Bonds have a redemption premium, this premium (as well as the costs of issuance) will be funded from sources other than the proceeds of the Refunding Bonds.

The Refunding Bonds will be issued pursuant to an Indenture of Trust between the County and a trustee. Pursuant to an agreement between the County and the Company, the proceeds from the sale of the Refunding Bonds, other than refundable accrued interest, will be loaned to the Company to refund the Prior Bonds, and thereby refinance the Facilities. Under the agreement, the Company will be obligated to pay absolutely and unconditionally, to the extent sufficient funds are not already in the possession of the trustee, the principal of, the interest on, and the premium (if any) on the Refunding Bonds, as well as certain fees and expenses of the County. Under no circumstances will the Refunding Bonds and their related costs become an obligation of the County.

To achieve the lowest cost of money, the Company may enter into reimbursement agreements, guarantees, pledges, or other security agreements or arrangements, guarantees, pledges, or other security agreements or arrangements to

assure timely payment of amounts due in respect of the Refunding Bonds. For example, a letter of credit may be added in order to support the Refunding Bonds. In connection with a letter of credit, the Company would enter into a reimbursement agreement under which a bank would issue a letter of credit to support payments in respect of the Refunding Bonds. Under the reimbursement agreement, the Company would be required to reimburse the bank for any drawings under its letter of credit. Amounts advanced by a bank under a letter of credit are expected to bear interest based upon various short-term rates. The Company expects that any letter of credit bank will have a long-term credit rating not less than AA and a short-term credit rating of A-1/P-1. In the event a letter of credit is obtained, it is expected to have an initial term of three years unless extended by mutual consent of the bank and the Company or replaced by the Company with another letter of credit or an alternative credit enhancement arrangement.

The fees associated with the credit enhancement arrangement are not expected to exceed 0.75% per annum. The Company believes, and its experience in previous tax-exempt financing confirms, that the interest savings from enhancing the credit support for the Refunding Bonds will exceed the cost of the letter of credit or alternative credit arrangements; that is, the effective cost of the Refunding Bonds will be lowered by the credit enhancement arrangements.

Over the life of the Refunding Bonds, it may be necessary or desirable to replace one or more letters of credit or alternative credit enhancement arrangements from time to time as, for example, the credit ratings of the various banks (and thus the Company's interest costs) fluctuate or market rates for letters of credit change. The Company therefore requests authority to substitute, as necessary or desirable from time to time, letters of credit or other credit enhancement arrangements for letters of credit or other credit enhancement arrangements then in effect with respect to the Refunding Bonds.

The Refunding Bonds will be issued with floating or fixed interest rates in several series with an aggregate principal amount not to exceed \$225,000,000.

While floating rate Refunding Bonds have a nominal long-term maturity, the obligation will have a "put" feature which enables the holder to tender the bonds

at par within a short notice period. The floating rate Refunding Bonds will be marketed with one or more put frequencies, including, but not limited to, daily, weekly and monthly puts. Because of the put feature, investors are indifferent to the final maturity of the instrument; as a result, the floating rate Refunding Bonds may be structured with the longest maturity justified by the underlying assets being financed, while obtaining rates reflective of short maturities.

In view of the put feature, the Company will enter into an agreement with a remarketing agent who will agree in advance to seek new purchasers for the floating rate Refunding Bonds on a best-efforts basis if and when the bonds are put. To satisfy the investment criteria of potential purchasers, the Company expects to arrange for a letter of credit or insurance contract as a source of credit support and liquidity. For example, a letter of credit will provide amounts required to purchase tendered floating rate Refunding Bonds which have not been successfully remarketed immediately, as well as amounts required for payment of scheduled interest and principal at maturity or through acceleration. The floating rate Refunding Bonds not immediately remarketed may thereafter be sold to other investors.

Floating rate Refunding Bonds may include the selection of one of several tax-exempt market rate pricing modes, including pricing modes as short as daily and as long as annually. The Refunding Bonds may also include an option to convert to a fixed rate mode. The pricing mode selection will depend upon a number of factors, including expectations as to which mode offers the lowest relative rates at the time of issuance. During the time the floating rate Refunding Bonds carry a floating rate, the bonds would be prepayable at par plus accrued interest at the end of any interest rate period.

Because of historically low interest rates, the Company may choose to issue the Refunding Bonds with fixed interest rates. It is expected that interest payments would be made on a semi-annual basis. The fixed rate Refunding Bonds may include call provisions at fixed prices at future dates. The Company may choose to purchase credit enhancement from insurance companies to achieve lower borrowing costs because the bonds would carry a AAA/Aaa rating. The insurance companies may require the Company to collateralize the Refunding Bonds with the Company's First

Mortgage and Collateral Trust Bonds. However, if the anticipated interest savings are not sufficient or the terms relating to the bond insurance are considered to be unduly restrictive, the Company may choose not to obtain insurance and may collateralize the Refunding Bonds with the Company's First Mortgage and Collateral Trust Bonds in an aggregate principal amount not exceeding the principal amount of the Refunding Bonds, thereby providing the Refunding Bonds with a credit rating equal to its senior debt.(A/A3). The Commission previously authorized the Company to incur the lien of the PacifiCorp Mortgage in Case No. U-1046-15, Order No. 22157. As in its previous issuances, the Company would expect to issue first mortgage bonds under the Pacific Power Mortgage and Utah Power Mortgage as the basis for the issuance of its First Mortgage and Collateral Trust Bonds. Bonds issued under the Pacific Power and Utah Power Mortgages would not count toward the maximum amount of bond authority granted in this docket.

The underwriting fee is not expected to exceed 1.25% of the principal amount of the Refunding Bonds. If floating rate Refunding Bonds are issued, the annual remarketing fee is not expected to exceed 0.125% of the principal amount of the Refunding Bonds. The Counties may receive an issuance fee paid up front and/or annually at an effective rate not expected to exceed 0.125% per annum on the principal amount of the Refunding Bonds. The Company will also pay the expenses of the offering incurred by the Counties.

The results of the offering are expected to be as follows:

ESTIMATED RESULTS OF THE FINANCING (1)

Proceeds from Refunding Bonds	<u>\$225,000,000</u>
Redemption Premium	\$ 767,575
Issuance Costs:	
Underwriters Fees (1.25%) (2)	2,812,500
Other Expenses	<u>5,500,000</u>
Total Costs to Issue Refunding Bonds	<u>\$ 9,080,075</u>

- (1) As the financings are special purpose financings, the interest on which is exempt from taxation to the holder, the proceeds may be used only to refinance the principal amount of the Prior Bonds issued to finance the Facilities. All issuance costs and redemption premiums associated with the Refunding Bonds must be derived from other capital sources of the Company.
- (2) Based upon a fixed rate offering.

OTHER EXPENSES

Regulatory Agency Fees	\$ 1,500
Issuer Fees (1)	2,500,000
Trustee Fees	50,000
Company Counsel Fees	150,000
Underwriters' Counsel Fees	200,000
Bond Counsel Fees	200,000
Accountants' Fees	50,000
Credit Enhancement Fees (2)	2,000,000
Rating Agency Fees	100,000
Printing Fees	100,000
Miscellaneous	<u>\$ 148,500</u>
Total Other Expenses	<u>\$ 5,500,000</u>

- (1) The Company may be required to pay an Issuer's Fee to the Counties to compensate the Counties for providing the Company the opportunity to issue the Refunding Bonds. The Company's past experience indicates that Emery County and Lincoln County will charge such a fee. Sweetwater County and Converse County generally have not charged a fee. At this time, the Company is not familiar with Moffat County's policy regarding such fees. For purposes of this estimated expense, it is assumed that all Counties will require the Company to pay an Issuer's Fee. Issuer's Fees are

not expected to exceed an effective cost of 0.125% per annum of the principal amount over the life of the Refunding Bonds.

- (2) Represents initial commitment fee for bond insurance. If a letter of credit is used, credit enhancement cost is not expected to exceed 0.75 percent per annum.

The net proceeds of the borrowings will be used to refund Prior Bonds currently outstanding that were issued previously to finance, or refinance, Facilities at the Plants.

The proposed borrowings are part of an overall plan to finance the cost of the Company's facilities taking into consideration prudent capital ratios, earnings coverage tests, and market uncertainties as to the relative merits of the various types of securities the Company could sell.

The Company has paid the fees required by *Idaho Code* § 61-129.

CONCLUSIONS OF LAW

The Company is an electrical corporation within the definition of *Idaho Code* § 61-119 and is a public utility within the definition of *Idaho Code* § 61-129.

The Idaho Public Utilities Commission has jurisdiction over this matter pursuant to the provisions of *Idaho Code* § 61-901 *et seq.*, and the Application reasonably conforms to Rule 141 of the Commission's Rules of Procedure.

The method of issuance is proper.

The general purposes to which the proceeds will be put are lawful purposes under the Public Utility Law of the State of Idaho and are compatible with the public interest. However, this general approval of the general purposes to which the proceeds will be put is neither a finding of fact nor a conclusion of law that any particular construction program of the Company which may be benefitted by the approval of this Application has been considered or approved by this Order, and this Order shall not be construed to that effect.

This issuance of an Order authorizing the proposed financings do not constitute agency determination/approval of the type of financing or the related costs

for ratemaking purposes which determination the Commission expressly reserves until the appropriate proceeding.

The Application should be approved.

O R D E R

IT IS THEREFORE ORDERED that the Application of PacifiCorp for authority to (1) borrow the proceeds of not more than \$225,000,000 of Pollution Control Revenue Refunding Bonds (Refunding Bonds) to be issued by various Counties (Counties), (2) enter into such agreements or arrangements with the Counties and with other entities from time to time as may be reasonably necessary to effect the borrowings and pursuant to which PacifiCorp would assume obligations as guarantor, surety, or otherwise with respect to the payment of the principal of, the interest on, and the premium (if any) on the Refunding Bonds and to enter into such agreements or arrangements as may be necessary to provide credit enhancement for said bonds, including the issuance of its First Mortgage and Collateral Trust Bonds as collateral for the Refunding bonds, all in connection with the refunding of outstanding Pollution Control Revenue Bonds that were issued to finance, or refinance, certain air and water pollution control, solid waste disposal and sewage facilities at the Jim Bridger, Carbon, Dave Johnston, Huntington, Hunter, Naughton and Craig Generating Plants, and (3) replace or modify from time to time the credit enhancement arrangements supporting the Refunding Bonds, is granted.

IT IS FURTHER ORDERED that the Application of PacifiCorp for authority to issue an additional \$225,000,000 of its First Mortgage and Collateral Trust Bonds (and related first mortgage bonds issued under the Pacific Power & Light Company and Utah Power & Light Company mortgages), which bonds may be used as collateral support for the Refunding Bonds as described in the Application, is approved. Such first mortgage bonds shall not count toward the bond authority granted herein.

IT IS FURTHER ORDERED that the remaining unused authority under Case No. PAC-S-92-4 is hereby rescinded.

IT IS FURTHER ORDERED that this authorization is without prejudice to the regulatory authority of this Commission with respect to rates, service, accounts, valuation, estimates or determination of costs, or any other matter which may come before this Commission pursuant to its jurisdiction and authority as provided by law.

IT IS FURTHER ORDERED that nothing in this Order and no provision of Chapter 9, Title 61, *Idaho Code*, or any act or deed done or performed in connection with this Order shall be construed to obligate the State of Idaho to pay or guarantee under the provisions of Chapter 9, Title 61, *Idaho Code*.

IT IS FURTHER ORDERED that PacifiCorp shall file the following as they become available:

- a) The "Report of Securities Issued" required by 18 C.F.R. 34.10;
- b) Verified copies of any agreement entered into in connection with the borrowings pursuant to this Order;
- c) Verified copies of any credit support arrangement entered into pursuant to this Order;
- d) A verified statement setting forth in reasonable detail the disposition of the proceeds of the borrowings made pursuant to this Order.

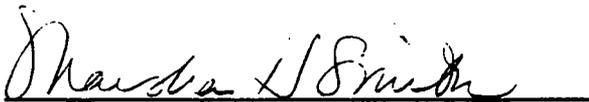
IT IS FURTHER ORDERED that PacifiCorp shall contact the Commission Staff as soon as possible prior to the issuance of debt for the purpose of reporting the estimated interest rates and other terms of the issuance. PacifiCorp shall also, after issuance, provide to the Staff workpapers demonstrating the cost effectiveness of the type of security selected for issuance. These two requirements are for information purposes and are not utilized to determine the legality of the issue.

IT IS FURTHER ORDERED that issuance of this Order does not constitute acceptance of PacifiCorp's exhibits or other material accompanying the Application for any purpose other than the issuance of this Order.

THIS IS A FINAL ORDER. Any person interested in this Order (or in issues finally decided by this Order) may petition for reconsideration within twenty-one (21) days of the service date of this Order with regard to any matter decided in this Order. Within seven (7) days after any person has petitioned for reconsideration,

any other person may cross-petition for reconsideration in response to issues raised in the petitions for reconsideration. See *Idaho Code* § 61-626.

DONE by Order of the Idaho Public Utilities Commission at Boise, Idaho
this *22nd* day of March 1994.


MARSHA H. SMITH, PRESIDENT


DEAN J. MILLER, COMMISSIONER


RALPH NELSON, COMMISSIONER

ATTEST:


Myrna Walters
Commission Secretary

JR\O-PAC-S-94-1.WS

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IDAHO PUBLIC
UTILITIES COMMISSION

TRUST INDENTURE

between

CARBON COUNTY, UTAH

and

THE FIRST NATIONAL BANK OF CHICAGO,
as Trustee

\$9,365,000
Pollution Control Revenue Refunding Bonds
(PacifiCorp Project)
Series 1994

Dated as of November 1, 1994

TRUST INDENTURE

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(This table of contents is not part of the Trust Indenture
and is only for convenience of reference.)

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TRUST INDENTURE

This TRUST INDENTURE is made and entered into as of November 1, 1994, between CARBON COUNTY, UTAH, a political subdivision duly organized and existing under the Constitution and laws of the State of Utah and THE FIRST NATIONAL BANK OF CHICAGO, a national banking association, as trustee.

RECITALS:

A. In furtherance of its public purposes, the Issuer has entered into a Loan Agreement, dated as of November 1, 1994, with PacifiCorp, an Oregon corporation, providing for the issuance by the Issuer of the Bonds for the purpose of refunding, in advance of stated maturity, the Prior Bonds.

B. The Agreement provides that the Issuer will issue and sell the Bonds and will use the proceeds of the issuance and sale of the Bonds (other than accrued interest thereon, if any), together with additional moneys to be paid by the Company, to provide for the refunding of the Prior Bonds upon the redemption thereof on the Redemption Date.

C. The execution and delivery of this Indenture and the issuance and sale of the Bonds have been in all respects duly and validly authorized by proper action duly adopted by the governing authority of the Issuer.

D. The execution and delivery of the Bonds and of this Indenture have been duly authorized and all things necessary to make the Bonds, when executed by the Issuer and authenticated by the Trustee, valid and binding legal obligations of the Issuer and to make this Indenture a valid and binding agreement have been done.

NOW, THEREFORE, THIS TRUST INDENTURE

WITNESSETH:

GRANTING CLAUSES

The Issuer, in consideration of the premises and the acceptance by the Trustee of the trusts hereby created and of the purchase and acceptance of the Bonds by the Owners thereof, and for other good and valuable consideration, the receipt of which is hereby acknowledged, in order to secure the payment of the principal of, and premium, if any, and interest on, the Bonds according to their tenor and effect and to secure the performance and observance by the Issuer of all the covenants expressed or implied herein and in the Bonds, does hereby grant, bargain, sell, convey, mortgage and warrant, and assign, pledge and grant a security interest in, the Trust Estate to the Trustee, and its successors in trust and assigns forever for the benefit of the Owners:

TO HAVE AND TO HOLD all and singular the Trust Estate, whether now owned or hereafter acquired, to the Trustee and its respective successors in trust and assigns forever;

IN TRUST NEVERTHELESS, upon the terms and trusts herein set forth for the equal and proportionate benefit, security and protection of all present and future Owners of the Bonds issued under and secured by this Indenture without privilege, priority or distinction as to the lien or otherwise of any of the Bonds over any of the other Bonds;

PROVIDED, HOWEVER, that if the Issuer, its successors or assigns, shall well and truly pay, or cause to be paid, the principal of, and premium, if any, and interest on, the Bonds due or to become due thereon, at the times and in the manner mentioned in the Bonds and as provided in Article VIII hereof according to the true intent and meaning thereof, and shall cause the payments to be made as required under Article V hereof, or shall provide, as permitted hereby, for the payment thereof in accordance with Article VIII hereof, and shall well and truly keep, perform and observe all the covenants and conditions pursuant to the terms of this Indenture to be kept, performed and observed by it, and shall pay or cause to be paid to the Trustee all sums of money due or to become due in accordance with the terms and provisions hereof, then and in that case this Indenture and the rights hereby granted shall cease, terminate and be void and the Trustee shall thereupon cancel and discharge this Indenture and execute and deliver to the Issuer, the Agent Bank or the Agent Obligor on an Alternate Liquidity Facility and the Company such instruments in writing as shall be requisite to evidence the discharge hereof, otherwise this Indenture shall be and remain in full force and effect.

THIS TRUST INDENTURE FURTHER WITNESSETH, and it is expressly declared, that all Bonds issued and secured hereunder are to be issued, authenticated and delivered and all of the Trust Estate is to be dealt with and disposed of, under, upon and subject to the terms, conditions, stipulations, covenants, agreements, trusts, uses and purposes hereinafter expressed, and the Issuer has agreed and covenanted, and does hereby agree and covenant, with the Trustee and with the respective Owners, from time to time, of the Bonds, or any part thereof, as follows:

ARTICLE I

DEFINITIONS AND RULES OF CONSTRUCTION

Section 1.01. Definitions. The terms defined in this Article I shall have meanings provided herein for all purposes of this Indenture and the Agreement, unless the context clearly requires otherwise.

“Act” means the Utah Industrial Facilities and Development Act, Title 11, Chapter 17, Utah Code Annotated 1953, as from time to time supplemented and amended.

“Administration Expenses” means reasonable compensation and reimbursement of reasonable expenses and advances payable to the Issuer, the Trustee, the Registrar, the Remarketing Agent, the Paying Agent, Moody’s and S&P.

“*Agent Bank*” means the Bank appointed as “Agent” under the Standby Purchase Agreement, initially The Bank of New York. If at any time there shall be only a single Bank under the Standby Purchase Agreement, such Bank shall be the Agent Bank.

“*Agent Obligor on an Alternate Liquidity Facility*” means an Obligor on an Alternate Liquidity Facility appointed as “Agent” under the Liquidity Agreement. If at any time there shall be only a single Obligor on an Alternate Liquidity Facility, such Obligor on an Alternate Liquidity Facility shall be the Agent Obligor on an Alternate Liquidity Facility.

“*Agreement*” or “*Loan Agreement*” means the Loan Agreement, dated as of November 1, 1994, between the Issuer and the Company, as amended and supplemented from time to time.

“*Alternate Liquidity Facility*” means a liquidity facility provided in accordance with Section 4.03 of the Agreement other than (i) the Standby Purchase Agreement delivered to the Trustee concurrently with the initial authentication and delivery of the Bonds or (ii) a Substitute Standby Purchase Agreement, including, without limitation, a line of credit of a commercial bank or a liquidity facility from a financial institution, or a combination thereof, the terms of which shall in all material respects be the same as the aforesaid Standby Purchase Agreement and the administrative provisions of which are acceptable to the Trustee, or any other liquidity agreement or mechanism arranged by the Company (which may involve a line of credit or other liquidity facility), the terms of which need not in all material respects be the same as the aforesaid Standby Purchase Agreement, but the administrative provisions of which are acceptable to the Trustee, which provides liquidity for payment of the purchase price of Bonds delivered to the Trustee. An Alternate Liquidity Facility may have an expiration date earlier than the maturity of the Bonds. The Trustee shall give notice to all Owners of Bonds of the proposed delivery of any Alternate Liquidity Facility in accordance with the provisions of Section 10.24(e) hereof.

“*Authorized Company Representative*” means each person at the time designated to act on behalf of the Company by written certificate furnished to the Issuer, the Agent Bank (or the Agent Obligor on an Alternate Liquidity Facility, as the case may be) and the Trustee containing the specimen signature of such person and signed on behalf of the Company by its President, any Vice President, its Secretary, any Assistant Secretary, its Treasurer or any Assistant Treasurer. Such certificate may designate an alternate or alternates.

“*Authorized Denomination*” means (i) \$100,000 or any integral multiple of \$100,000 (*provided* that one Bond need not be in a multiple of \$100,000 but may be in such denomination greater than \$100,000 as shall be necessary to account for any principal amount of the Bonds not corresponding directly with \$100,000 denominations) when the Bonds bear interest at a Daily or Weekly Interest Rate; (ii) \$100,000 or any integral multiple of \$5,000 in excess of \$100,000 when the Bonds bear interest at a Flexible Interest Rate; and (iii) \$5,000 or integral multiples of \$5,000 when the Bonds bear interest at a Term Interest Rate.

"Available Moneys" means (a) for purposes of Section 3.03 hereof and of clause (b) of the third paragraph of Article VIII hereof, (i) during such time as a Standby Purchase Agreement or an Alternate Liquidity Facility is in effect and subject to the condition that if, in the written opinion of nationally recognized counsel experienced in bankruptcy matters and acceptable to Moody's (if the Bonds are then rated by Moody's) and the Trustee (which opinion shall be delivered to the Trustee at or prior to the time of the deposit of such moneys with the Trustee) the deposit and use of such moneys will not constitute a voidable preference under Section 547 of the United States Bankruptcy Code in the event the Issuer or the Company were to become a debtor under the United States Bankruptcy Code, (A) moneys on deposit in trust with the Trustee for a period of at least 123 days prior to and during which no petition in bankruptcy or similar insolvency proceeding has been filed by or against the Company or the Issuer or is pending (unless such petition shall have been dismissed and such dismissal shall be final and not subject to appeal), (B) proceeds of the issuance of refunding bonds (including proceeds from the investment thereof), and (C) any other moneys, and (ii) at any time that a Standby Purchase Agreement or an Alternate Liquidity Facility is not in effect, any moneys on deposit with the Trustee and proceeds from the investment thereof and (b) for purposes of Section 4.05(b), Section 4.08 and of clause (c) of the third paragraph of Article VIII hereof and clause (i) of the seventh paragraph of Article VIII hereof (i) during such time as an Insurance Policy is in effect and subject to the condition that if, in the written opinion of nationally recognized counsel experienced in bankruptcy matters and acceptable to Moody's (if the Bonds are then rated by Moody's) and the Trustee (which opinion shall be delivered to the Trustee at or prior to the time of the deposit of such moneys with the Trustee) the deposit and use of such moneys will not constitute a voidable preference under Section 547 of the United States Bankruptcy Code in the event the Issuer or the Company were to become a debtor under the United States Bankruptcy Code, (A) moneys on deposit in trust with the Trustee for a period of at least 123 days prior to and during which no petition in bankruptcy or similar insolvency proceeding has been filed by or against the Company or the Issuer or is pending (unless such petition shall have been dismissed and such dismissal shall be final and not subject to appeal), (B) proceeds of the issuance of refunding bonds (including proceeds from the investment thereof), and (C) any other money, and (ii) at any time that an Insurance Policy is not in effect, any moneys on deposit with the Trustee and proceeds from the investment thereof.

"Bank" means any bank or banks, either collectively or singularly, as the context may require, designated from time to time as a "Bank" (including the Agent Bank) under the Standby Purchase Agreement.

"Beneficial Owner" has, when the Bonds are held in book-entry form, the meaning ascribed to such term in Section 2.10 hereof.

"Bond" or *"Bonds"* means the Issuer's \$9,365,000 Pollution Control Revenue Refunding Bonds (PacifiCorp Project) Series 1994, issued pursuant to this Indenture.

"Bond Counsel" means Chapman and Cutler or any other firm of nationally recognized bond counsel familiar with the type of transactions contemplated under this Indenture selected by the Company and acceptable to the Trustee.

"Bond Documents" means this Indenture, the Agreement and the Bonds.

"Bond Fund" means the trust fund by that name created pursuant to Section 6.01 hereof.

"Bond Payment Date" means any Interest Payment Date and any other date on which the principal of, and premium, if any, and interest on, the Bonds is to be paid to the Owners thereof, whether upon redemption, at maturity or upon acceleration of maturity of the Bonds.

"Bond Resolution" means the resolution duly adopted and approved by the Board of County Commissioners of the Issuer on November 2, 1994, authorizing the issuance and sale of the Bonds and the execution of this Indenture and the Agreement.

"Business Day" means a day except a Saturday, Sunday or other day (a) on which commercial banks located in the cities in which the Principal Office of the Agent Bank (or the Principal Office of the Agent Obligor on an Alternate Liquidity Facility, as the case may be), the Principal Office of the Trustee, the Principal Office of the Remarketing Agent or the Principal Office of the Paying Agent are located are required or authorized by law to remain closed or are closed, or (b) on which The New York Stock Exchange, Inc. is closed.

"Clerk" means the County Clerk of the Issuer.

"Code" means the Internal Revenue Code of 1986, as amended. Each reference to a section of the Code herein shall be deemed to include the United States Treasury Regulations, including temporary and proposed regulations, relating to such section which are applicable to the Bonds or the use of the proceeds thereof.

"1954 Code" means the Internal Revenue Code of 1954, as amended. Each reference to a section of the 1954 Code herein shall be deemed to include the United States Treasury Regulations, including temporary and proposed regulations, relating to such section which are applicable to the Bonds or the use of the proceeds thereof.

"Company" means PacifiCorp, a corporation organized and existing under the laws of the State of Oregon, its successors and assigns.

"Company Mortgage" shall mean the Mortgage and Deed of Trust, dated as of January 9, 1989, between the Company and the Company Mortgage Trustee, as heretofore and hereafter supplemented and amended. Upon delivery of any Substitute Collateral, references herein and in the Agreement to Company Mortgage shall also mean the mortgage and deed of trust or other agreement pursuant to which the Substitute Collateral is issued, except as may be otherwise provided in a Supplemental Indenture entered into pursuant to Section 12.01(l) hereof or a supplement to the Agreement entered into pursuant to Section 12.05(e) hereof.

"Company Mortgage Trustee" shall mean Chemical Bank, as successor trustee under the Company Mortgage, its successors in trust and their assigns. Upon delivery of any Substitute Collateral, references herein and in the Agreement to Company Mortgage Trustee

shall also mean the trustee with respect to such Substitute Collateral, except as may be otherwise provided in a Supplemental Indenture entered into pursuant to Section 12.01(l) hereof or a supplement to the Agreement entered into pursuant to Section 12.05(e) hereof.

"Company Supplemental Indenture" shall mean the Tenth Supplemental Indenture dated as of August 1, 1994, supplementing the Company Mortgage and providing for the issuance of the First Mortgage Bonds.

"Costs" means all fees and reasonable costs and expenses incurred in connection with the Refunding and the issuance of the Bonds, to be paid by the Company from moneys other than moneys arising from the sale of the Bonds or moneys provided under the Standby Purchase Agreement to pay the purchase price of Unremarketed Bonds.

"Daily Interest Rate" means the variable interest rate on the Bonds established pursuant to Section 2.02(b) hereof.

"Daily Interest Rate Period" means each period during which a Daily Interest Rate is in effect.

"Delivery Office of the Trustee" means the office designated as such by the Trustee in writing to the Remarketing Agent, the Registrar, the Issuer, the Agent Bank (or the Agent Obligor on an Alternate Liquidity Facility, as the case may be), and the Company. If there is no book-entry system in effect for the Bonds, the Delivery Office of the Trustee shall be an office of the Trustee located in New York, New York.

"Determination of Taxability" shall have the meaning set forth in Section 8.03 of the Agreement. The Trustee shall give notice of a Determination of Taxability as provided in Section 10.05 hereof.

"DTC" means The Depository Trust Company and its successors and assigns.

"DTC Participants" means those broker-dealers, banks and other financial institutions from time to time for which DTC holds Bonds as securities depository.

"Due for Payment" has the meaning specified in the Insurance Policy.

"Event of Default" means any occurrence or event specified in Section 9.01 hereof.

"Event of Taxability" means the failure of the Company to observe any covenant, agreement or representation in the Agreement, which failure results in a Determination of Taxability.

"Executive Officer" means the Chair of the Board of County Commissioners of the Issuer.

“Exempt Facilities” means facilities (i) which qualify as “sewage or solid waste disposal facilities” or “air or water pollution control facilities” as defined in the 1954 Code and (ii) which qualify as a “project” under the Act.

“Expiration of the term of an Alternate Liquidity Facility” means (i)(a) the date specified in the Alternate Liquidity Facility as the expiration date for the Alternate Liquidity Facility, (b) the date on which an Alternate Liquidity Facility is substituted in accordance with the provisions hereof and of the Loan Agreement for the commitment of the then-existing Obligor on an Alternate Liquidity Facility to provide moneys pursuant to the Liquidity Agreement in effect at that time to purchase Bonds pursuant to Section 3.01 and Section 3.02 hereof, or (c) the date on which the Company terminates the Alternate Liquidity Facility in accordance with Section 4.03 of the Agreement, or (ii) the date on which the commitment of the Obligor on an Alternate Liquidity Facility to purchase Bonds pursuant to the Alternate Liquidity Facility is otherwise terminated in accordance with its terms.

“Expiration of the term of the Standby Purchase Agreement” means (i)(a) the “*Stated Expiration Date*” as defined in the Standby Purchase Agreement or (b) the date on which an Alternate Liquidity Facility is substituted in accordance with the provisions hereof and of the Loan Agreement for the commitment of the Bank to provide moneys pursuant to the Standby Purchase Agreement to purchase Bonds pursuant to Section 3.01 and Section 3.02 hereof, or (c) the date on which the Company terminates the Standby Purchase Agreement in accordance with Section 4.03 of the Agreement, or (ii) the date on which the commitment of the Bank to purchase Bonds pursuant to the Standby Purchase Agreement is otherwise terminated in accordance with its terms.

“First Mortgage Bonds” shall mean the series of first mortgage and collateral trust bonds issued and delivered under the Company Mortgage and the Company Supplemental Indenture, and held by the Trustee pursuant to the Pledge Agreement. Upon delivery of any Substitute Collateral, references herein and in the Agreement to First Mortgage Bonds shall also mean such Substitute Collateral, except as may be otherwise provided in a Supplemental Indenture entered into pursuant to Section 12.01(l) hereof or a supplement to the Agreement entered into pursuant to Section 12.05(e) hereof.

“Flexible Interest Rate” means, with respect to any Bond, the non-variable rate or rates associated with such Bond established in accordance with Section 2.02(e) hereof.

“Flexible Interest Rate Period” means each period comprised of Flexible Segments during which Flexible Interest Rates are in effect.

“Flexible Segment” means, with respect to each Bond bearing interest at a Flexible Interest Rate, the period established in accordance with Section 2.02(e) hereof.

“Government Obligations” means direct obligations of, or obligations the principal of and interest on which are unconditionally guaranteed as to full and timely payment by, the United States of America, which are not subject to redemption or prepayment prior to stated maturity.

"Indenture" means this Trust Indenture, dated as of November 1, 1994, between the Issuer and the Trustee relating to issuance of the Bonds, as amended or supplemented from time to time as permitted herein.

"Information Services" means Financial Information, Inc.'s "Daily Called Bond Service," 30 Montgomery Street, 10th Floor, Jersey City, New Jersey 07302, Attention: Editor; Kenny Information Services' "Called Bond Service," 65 Broadway, 16th Floor, New York, New York 10006; Moody's "Municipal and Government," 99 Church Street, 8th Floor, New York, New York 10007, Attention: Municipal News Reports; the Municipal Securities Rulemaking Board, CDI Pilot, 1640 King Street, Suite 300, Alexandria, Virginia 22314 and Standard and Poor's "Called Bond Record," 25 Broadway, 3rd Floor, New York, New York 10004; or, in accordance with then-current guidelines of the Securities and Exchange Commission, such other addresses and/or such other services providing information with respect to called bonds, or no such services, as the Company may designate in a certificate delivered to the Trustee.

"Initial Rate Period" for the Bonds means the applicable Rate Period for the Bonds on the Issue Date.

"Insurance Agreement" means that Insurance Agreement dated November 1, 1994 between the Company and the Insurer and relating to the Insurance Policy.

"Insurance Policy" shall mean the municipal bond insurance policy issued by the Insurer insuring the payment when due of the principal of and interest on the Bonds as provided therein.

"Insurance Trustee" has the meaning specified in the Insurance Policy. The Insurance Policy specifies that the United States Trust Company of New York is initially the Insurance Trustee.

"Insurer" shall mean (a) AMBAC Indemnity Corporation, a Wisconsin-domiciled stock insurance company, and (b) any other insurance or indemnity company or other type of financial institution that either replaces AMBAC Indemnity Corporation as "Insurer" hereunder or is provided as an additional "Insurer" hereunder with the consent of the Company and each Bank or each Obligor on an Alternate Liquidity Facility, as the case may be, under the circumstances contemplated by Section 12.01(q) hereof.

"Insurer Default" means any of the following events:

(a) the failure of the Insurer to make any payment required under the Insurance Policy when the same shall become due and payable or the Insurance Policy shall for any reason cease to be in full force and effect;

(b) a decree or order for relief shall be entered by a court or insurance regulatory authority having jurisdiction over the Insurer in an involuntary case under an applicable bankruptcy, insolvency or other similar law now or hereafter in effect, or

appointing a receiver, liquidator, custodian, trustee, sequestrator (or similar official) of the Insurer or for any substantial part of the property of the Insurer or ordering the winding-up or liquidation of the affairs of the Insurer, and the continuance of any such decree or order shall be unstayed and remain in effect for a period of 60 consecutive days thereafter; or

(c) the Insurer shall commence a voluntary case under any applicable federal or state bankruptcy, insolvency or other similar law now or hereafter in effect, or it shall consent to or acquiesce in the entry of an order for relief in an involuntary case under any such law, or it shall consent to the appointment of or taking of possession by a receiver, liquidator, trustee, custodian, sequestrator (or similar official) of the Insurer or for any substantial part of the property of it, or it shall make a general assignment for the benefit of creditors, or the Insurer shall fail generally or admit in writing its inability to pay its debts as such debts become due, or the Insurer shall take corporate action in contemplation or furtherance of any of the foregoing.

"Interest Account" means the trust account by that name established in the Bond Fund pursuant to Section 6.01 hereof.

"Interest Component" shall mean the maximum amount stated in the Standby Purchase Agreement or an Alternate Liquidity Facility, as the case may be (as reduced and reinstated from time to time in accordance with the terms thereof), which may be used to pay the portion of the purchase price of Bonds delivered pursuant to Section 3.01 and Section 3.02 hereof corresponding to interest accrued on the Bonds.

"Interest Coverage Period" means the number of days specified in the Standby Purchase Agreement or an Alternate Liquidity Facility, as the case may be, initially 62 days, which is used to determine the Interest Component.

"Interest Coverage Rate" means the rate specified in the Standby Purchase Agreement or an Alternate Liquidity Facility, as the case may be, initially 12%, which is used to determine the Interest Component.

"Interest Payment Date" means:

(i) with respect to any Daily or Weekly Interest Rate Period, the first Business Day of each calendar month,

(ii) with respect to any Term Interest Rate Period, the first day of the sixth month following the commencement of the Term Interest Rate Period and the first day of each sixth month thereafter,

(iii) with respect to any Flexible Segment, the Business Day next succeeding the last day of such Flexible Segment,

(iv) with respect to any Rate Period, the Business Day next succeeding the last day thereof,

(v) with respect to any Bond when it bears interest at a Flexible Interest Rate, any date on which there is a mandatory purchase of the Bond pursuant to Section 3.02(a)(iii) hereof; and

(vi) with respect to any Unremarketed Bond, (A) the first day of each month succeeding the date on which such Unremarketed Bond was purchased by the Bank or the Obligor on an Alternate Liquidity Facility, as the case may be, and (B) each date on which any principal of such Unremarketed Bond is paid at maturity or upon acceleration or upon redemption and (C) upon the remarketing of the Unremarketed Bonds, the date on which the remarketed Bond is delivered to the purchaser thereof.

“Investment Securities” means any of the following obligations or securities, to the extent permitted by law and subject to the provisions of Article VII hereof, on which neither the Company nor any of its subsidiaries is the obligor:

(a) Government Obligations;

(b) Obligations of any of the following federal agencies which represent full faith and credit obligations of the United States of America (stripped securities are permitted only if they have been stripped by the agency itself): the Export-Import Bank of the United States (direct obligations or fully guaranteed certificates of beneficial ownership only); the Government National Mortgage Association (GNMA-guaranteed mortgage-backed bonds or GNMA-guaranteed pass-through obligations only); the Farmers Home Administration (certificates of beneficial ownership only); the Federal Housing Administration (debentures only); the United States Maritime Administration (guaranteed Title XI financings only); the General Services Administration (participation certificates only); or the U.S. Department of Housing & Urban Development Local Authority Bonds;

(c) Money market funds registered under the Investment Company Act of 1940, whose shares are registered under the Securities Act of 1933, having a rating of “AAAm-G” or “AAAm” or better by S&P;

(d) Commercial paper, (i) which, at the time of purchase, is rated in the same or higher Rating Category as the Bonds, but in no event shall any rating on such commercial paper be less than “P-1” by Moody’s and “A-1” by S&P and (ii) which matures not more than 270 days after the date of purchase;

(e) Bonds, notes or other evidences of indebtedness (stripped securities are only permitted if they have been stripped by the agency itself and such securities do not have a value greater than par on the unpaid principal) rated “AAA” by S&P and “Aaa” by Moody’s issued by the Federal National Mortgage Association (mortgage-backed

securities and senior debt obligations only) or the Federal Home Loan Mortgage Corporation (participation certificates and senior debt obligations only); and

(f) U.S.-dollar-denominated deposit accounts, federal funds and banker's acceptances with domestic commercial banks (i) which, on their date of purchase, are rated on their short-term certificates of deposit in the same or higher Rating Category as the Bonds, but in no event shall any rating on such investments be less than "P-1" or better by Moody's and "A-1" or better by S&P and (ii) which mature no more than 360 days after the date of purchase (ratings on holding companies are not considered as the rating of the bank);

(g) Any bonds or notes of any state of the United States of America or of any agency, instrumentality or local governmental unit of any such state which are not callable at the option of the obligor prior to maturity or as to which irrevocable instructions have been given by the obligor to call on the date specified in the notice; and (i) which are rated, based on an irrevocable escrow account or fund in the highest Rating Category of S&P and Moody's.

"Issue Date" means the date of initial authentication and delivery of the Bonds.

"Issuer" means Carbon County, Utah, and its successors, and any political subdivision resulting from or surviving any consolidation or merger to which it or its successors may be a party.

"Liquidity Agreement" means (a) the Standby Purchase Agreement or (b)(i) an Alternate Liquidity Facility or (ii) the agreement and any amendments thereto pursuant to which the Obligor on an Alternate Liquidity Facility agrees to provide such Alternate Liquidity Facility.

"Liquidity Fund" means the fund by that name created pursuant to Section 6.01 hereof.

"Loan Payments" shall mean the payments required to be made by the Company pursuant to Section 4.01(a) of the Agreement.

"Mail" means mail by first-class postage.

"Maximum Interest Rate" means (i) while a Standby Purchase Agreement or an Alternate Liquidity Facility is in effect, the lesser of 18% per annum or the Interest Coverage Rate; and (ii) at all other times 18% per annum; *provided* that the Maximum Interest Rate with respect to Unremarketed Bonds shall be 18% per annum.

"Moody's" means Moody's Investors Service, Inc., a corporation organized and existing under the laws of the State of Delaware, its successors and assigns, and, if such corporation shall for any reason no longer perform the functions of a securities rating agency, *"Moody's"* shall be deemed to refer to any other nationally recognized rating agency

designated by the Company by notice to the Issuer, the Trustee and the Agent Bank (or the Agent Obligor on an Alternate Liquidity Facility, as the case may be).

"Obligor on an Alternate Liquidity Facility" means the entity or entities, as the case may be, obligated to make payments under any Alternate Liquidity Facility.

"Outstanding" or *"Bonds Outstanding"* or *"Outstanding Bonds"* means, as of any given date, all Bonds which have been authenticated and delivered by the Trustee under this Indenture, except:

- (a) Bonds cancelled at or prior to such date or delivered to or acquired by the Trustee on or prior to such date for cancellation;
- (b) Bonds deemed to be paid in accordance with Article VIII hereof; and
- (c) Bonds in lieu of which other Bonds have been authenticated under Section 2.07 hereof;

provided, however, that if the principal of or interest due on Bonds is paid by the Insurer pursuant to the Insurance Policy, such Bonds shall remain Outstanding for all purposes of this Indenture until the Insurer receives payment therefor as contemplated by the Insurance Policy.

"Owner" or *"Owners"* or *"Owner of Bonds"* or *"Owners of Bonds"* means the registered owner of any Bond; *provided, however*, when used in the context of the Tax-Exempt status of the Bonds, the term *"Owner"* shall include a Beneficial Owner.

"Paying Agent" means any paying agent appointed as provided in Section 10.23 hereof, or any successor thereto.

"Person" means one or more individuals, estates, joint ventures, joint-stock companies, partnerships, associations, corporations, trusts or unincorporated organizations, and one or more governments or agencies or political subdivisions thereof.

"Plans and Specifications" means the plans and specifications describing the Project, as amended from time to time, as duly certified by an Authorized Company Representative.

"Plant" means the Carbon coal-fired electric generating plant.

"Pledge Agreement" means the Pledge Agreement, dated as of November 1, 1994, between the Company and the Trustee, relating to the First Mortgage Bonds and any and all modifications, alterations, amendments and supplements thereto.

"Pollution Control Facilities" means those items of machinery, equipment, structures, improvements, other facilities and related property, which have been or will be acquired, constructed and improved at the Plant, as more particularly described in *Exhibit A* to the Agreement (as said *Exhibit A* may be from time to time amended).

"Prime Rate" means, on any date, the rate specified as the "Prime Rate" in the Wall Street Journal under the table entitled "Money Rates" on such date, or if such rate is not published on such date, the rate so specified on the immediately preceding date that such rate is published.

"Principal Account" means the trust account by that name established within the Bond Fund pursuant to Section 6.01 hereof.

"Principal Office of the Agent Bank" means the office of the Agent Bank located in the United States of America and designated as the Principal Office of the Agent Bank by the Agent Bank in writing to the Trustee, the Issuer, the Registrar, the Company, the Insurer and the Remarketing Agent.

"Principal Office of the Agent Obligor on an Alternate Liquidity Facility" means the office of the Agent Obligor on an Alternate Liquidity Facility located in the United States of America and designated as the Principal Office of the Agent Obligor on an Alternate Liquidity Facility by the Agent Obligor on an Alternate Liquidity Facility in writing to the Trustee, the Issuer, the Insurer, the Registrar, the Company and the Remarketing Agent.

"Principal Office of the Paying Agent" means the office designated in writing by the Paying Agent to the Trustee, the Issuer, the Company, the Registrar, the Insurer, and the Agent Bank (or the Agent Obligor on an Alternate Liquidity Facility, as the case may be).

"Principal Office of the Registrar" means the office or offices designated as such by the Registrar in writing to the Trustee, the Agent Bank (or the Agent Obligor on an Alternate Liquidity Facility, as the case may be), the Company, the Issuer and the Remarketing Agent.

"Principal Office of the Remarketing Agent" means the office designated in writing by the Remarketing Agent to the Trustee, the Issuer, the Company, the Registrar, the Paying Agent, the Insurer and the Agent Bank (or the Agent Obligor on an Alternate Liquidity Facility, as the case may be).

"Principal Office of the Trustee" means the office designated as such by the Trustee in writing to the Remarketing Agent, the Registrar, the Issuer, the Agent Bank (or the Agent Obligor on an Alternate Liquidity Facility, as the case may be), the Paying Agent, the Insurer and the Company.

"Prior Agreement" means the equipment sublease pursuant to which the Company is obligated to provide for payment of the Prior Bonds.

"Prior Bond Fund" means the fund created under the provisions of the Prior Indenture from which payments of principal and interest on the Prior Bonds are made.

"Prior Bonds" means the Issuer's Pollution Control Revenue Bonds (Utah Power & Light Company Project) Series A of 1974 which are being refunded pursuant to the Refunding with the proceeds of the Bonds.

"Prior Indenture" means the indenture of trust pursuant to which the Prior Bonds were issued.

"Prior Trustee" means the Person serving as trustee under the Prior Indenture.

"Project" means the Pollution Control Facilities, a portion of which will be refinanced with the proceeds from the sale of the Bonds.

"Project Certificate" means the Company's certificate or certificates, delivered concurrently with the initial authentication and delivery of the Bonds, with respect to certain facts which are within the knowledge of the Company to enable Bond Counsel to determine whether interest on the Bonds is includible in the gross income of the Owners thereof under applicable provisions of the Code.

"Rate" means any Daily Interest Rate, Weekly Interest Rate, Flexible Interest Rate or Term Interest Rate.

"Rate Period" means any Daily Interest Rate Period, Weekly Interest Rate Period, Flexible Interest Rate Period or Term Interest Rate Period.

"Rating Category" means one of the generic rating categories of either Moody's or S&P, without regard to any refinement or gradation of such rating category by a numerical modifier or otherwise.

"Record Date" means (a) with respect to any Interest Payment Date in respect of any Daily Interest Rate Period, Weekly Interest Rate Period or Flexible Segment, the Business Day next preceding such Interest Payment Date; and (b) with respect to any Interest Payment Date in respect of any Term Interest Rate Period, the fifteenth day of the month preceding such Interest Payment Date.

"Redemption Date" means November 28, 1994, the date upon which the Prior Bonds are to be redeemed.

"Refunding" means the series of transactions whereby the Prior Bonds are refunded and cancelled with the proceeds of the Bonds and other money provided by the Company.

"Registrar" means the Registrar appointed in accordance with Section 10.21 or Section 10.22 hereof, initially the Trustee and each and every additional agent appointed by the Trustee from time to time for the exchange, registration and registration of transfer of the Bonds, or any successor Registrar appointed hereunder.

"Remarketing Agent" means the Person appointed to serve as Remarketing Agent under this Indenture, initially Morgan Stanley & Co. Incorporated, and its successors and assigns.

"Remarketing Agreement" means the remarketing agreement between the Company and the Remarketing Agent pursuant to which the Remarketing Agent agrees to act as Remarketing Agent for the Bonds, as such remarketing agreement may be amended and supplemented from time to time.

"Revenues" means all moneys pledged hereunder and paid or payable to the Trustee for the account of the Issuer in accordance with the Agreement, the First Mortgage Bonds, the Pledge Agreement and the Insurance Policy, and all receipts credited under the provisions of this Indenture against such payments; *provided, however*, that *"Revenues"* shall not include moneys held by the Trustee to pay the purchase price of Bonds subject to purchase pursuant to Article III hereof.

"S&P" means Standard & Poor's Ratings Group, a division of McGraw-Hill, Inc., a corporation organized and existing under the laws of the State of New York, its successors and assigns, and, if such corporation shall for any reason no longer perform the functions of a securities rating agency, *"S&P"* shall be deemed to refer to any other nationally recognized securities rating agency designated by the Company by notice to the Issuer, the Trustee and the Agent Bank (or the Agent Obligor on an Alternate Liquidity Facility, as the case may be).

"Securities Depositories" means The Depository Trust Company, 711 Stewart Avenue, Garden City, New York 11530, Fax: (516) 227-4039 or 4190; Midwest Securities Trust Company, Capital Structures - Call Notification, 440 South LaSalle Street, Chicago, Illinois 60605, Fax: (312) 663-2343; Philadelphia Depository Trust Company, Reorganization Division, 1900 Market Street, Philadelphia, Pennsylvania 19103, Attention: Bond Department, Fax: (215) 496-5058; or, in accordance with then-current guidelines of the Securities and Exchange Commission, such other addresses and/or such other securities depositories, or no such depositories, as the Company may designate in a certificate delivered to the Trustee.

"Standby Purchase Agreement" means the Standby Bond Purchase Agreement dated as of November 1, 1994, among the Banks named therein, the Company and the Agent Bank. In the event of the delivery of a Substitute Standby Purchase Agreement, *"Standby Purchase Agreement"* shall, unless the context otherwise requires, mean such Substitute Standby Purchase Agreement.

"State" means the State of Utah.

"Substitute Collateral" means any form of collateral delivered by the Company in substitution for the First Mortgage Bonds pursuant to Section 4.04(f) of the Agreement.

"Substitute Standby Purchase Agreement" means a Standby Purchase Agreement provided in accordance with Section 4.03(b) of the Agreement in substitution for the Standby Purchase Agreement in effect at the time of such substitution (which substitution may be accomplished by an amendment to such Standby Purchase Agreement) which is provided by the same Banks which are parties to the Standby Purchase Agreement at the time of such substitution and which Substitute Standby Purchase Agreement is identical to the Standby

Purchase Agreement in substitution for which the Substitute Standby Purchase Agreement is to be provided, except as set forth below:

- (i) An increase or decrease in the Interest Coverage Rate; or
- (ii) An increase or decrease in the Interest Coverage Period; or
- (iii) Any combination of (i) and (ii).

The Trustee shall give notice to the Remarketing Agent and to all Owners of Bonds of the proposed delivery of a Substitute Standby Purchase Agreement in accordance with the provisions of Section 10.24(e) hereof.

"Supplemental Indenture" means any indenture supplemental to this Indenture entered into between the Issuer and the Trustee pursuant to the provisions of Section 12.01 or Section 12.02 hereof.

"Tax Certificate" means the Tax Exemption Certificate and Agreement relating to the Bonds to be executed by the Company, the Issuer and the Trustee on the date of the initial authentication and delivery of the Bonds, as amended and supplemented from time to time.

"Tax-Exempt" means, with respect to interest on any obligations of a state or local government, including the Bonds, that such interest is not includible in gross income of the owners of such obligations for federal income tax purposes, except for interest on any such obligations for any period during which such obligations are owned by a person who is a "substantial user" of any facilities financed or refinanced with such obligations or a "related person" within the meaning of Section 103(b)(13) of the 1954 Code, whether or not such interest is includible as an item of tax preference or otherwise includible directly or indirectly for purposes of calculating other tax liabilities, including any alternative minimum tax or environmental tax under the Code.

"Term Interest Rate" means an interest rate on the Bonds established periodically in accordance with Section 2.02(d) hereof.

"Term Interest Rate Period" means each period of six months or more during which a Term Interest Rate is in effect.

"Treasury Regulations" means the United States Treasury Regulations dealing with the tax-exempt bond provisions of the Code.

"Trustee" means The First National Bank of Chicago, a national banking association, as trustee under this Indenture, and any successor Trustee appointed hereunder.

"Trust Estate" means all right, title and interest of the Issuer in and to the Agreement (except its rights under Section 4.06, Section 4.08, Section 5.03, Section 5.06, Section 5.07, Section 5.08, Section 7.05 and Section 7.07 thereof, and its rights to receive notices,

certificates, requests, requisitions, directions and other communications thereunder), including, without limitation, all right, title and interest of the Issuer in the Revenues, all of the First Mortgage Bonds issued and delivered by the Company to the Trustee pursuant to the Pledge Agreement, the Insurance Policy, all moneys and other obligations which are, from time to time, deposited with or held by or on behalf of the Trustee in trust in the Bond Fund under any of the provisions of this Indenture or the Pledge Agreement (except moneys or obligations deposited with or paid to the Trustee for payment or redemption of Bonds that are deemed no longer Outstanding hereunder), and all other rights, title and interest which are subject to the lien of this Indenture; *provided, however*, that the "Trust Estate" shall not include moneys held by the Trustee to pay the purchase price of Bonds subject to purchase pursuant to Article III hereof.

"*Unremarketed Bond Interest Rate*" means with respect to each Unremarketed Bond, that variable rate of interest determined daily necessary to produce an amount equal to interest at the Prime Rate (or, with respect to any overdue amount, the Prime Rate plus two percent (2%)), calculated on (i) the principal amount of such Unremarketed Bond plus (ii) to the extent permitted by law, the amount of accrued interest paid by a Bank to purchase such Unremarketed Bond, until such principal and accrued interest have been paid to such Bank.

"*Unremarketed Bonds*" means Bonds purchased with moneys provided pursuant to the Standby Purchase Agreement or an Alternate Liquidity Facility, as the case may be, registered and delivered in accordance with the Liquidity Agreement and which have not been released upon the remarketing thereof in accordance with Section 3.06(a)(ii).

"*Unremarketed Bonds Redemption*" means that redemption of Unremarketed Bonds effected pursuant to the terms of Section 4.03(c) hereof.

"*Weekly Interest Rate*" means the variable interest rate on the Bonds established in accordance with Section 2.02(c) hereof.

"*Weekly Interest Rate Period*" means each period during which a Weekly Interest Rate is in effect.

"*Yield*" means that yield which, when used in computing the present worth of all payments of principal and interest to be paid on an obligation, produces an amount equal to the purchase price (as defined in the Treasury Regulations).

Section 1.02. Rules of Construction. Unless the context otherwise requires,

(a) an accounting term not otherwise defined has the meaning assigned to it in accordance with generally accepted accounting principles;

(b) references to Articles and Sections are to the Articles and Sections of this Indenture or the Agreement, as the case may be;

(c) words importing the singular number shall include the plural number and vice versa and words importing the masculine shall include the feminine and vice versa; and

(d) the headings and Table of Contents herein are solely for convenience of reference and shall not constitute a part of this Indenture nor shall they affect its meanings, construction or effect.

ARTICLE II

THE BONDS

Section 2.01. Authorization and Terms of Bonds. (a) There is hereby authorized and created under this Indenture an issue of bonds designated as “Carbon County, Utah, Pollution Control Revenue Refunding Bonds (PacifiCorp Project) Series 1994”. The total aggregate principal amount of Bonds that may be issued and Outstanding under this Indenture is expressly limited to \$9,365,000, exclusive of Bonds executed and authenticated as provided in Section 2.07 hereof; *provided, however*, that no Bonds shall be delivered hereunder until the Trustee receives a request and authorization of the Issuer signed by the Executive Officer to authenticate and deliver the principal amount of the Bonds therein specified to the purchaser or purchasers therein identified.

(b) The Bonds shall be issued as fully-registered Bonds, without coupons, in Authorized Denominations and shall all be dated as of the Issue Date. The Bonds shall mature, subject to prior redemption as provided in Article IV hereof, upon the terms and conditions hereinafter set forth, on November 1, 2024. The Bonds shall bear interest at the rate determined as provided in Section 2.02 hereof.

The Bonds shall be numbered consecutively from 1 upward. Each Bond shall bear interest from the Interest Payment Date next preceding the date of registration and authentication thereof unless it is registered and authenticated after a Record Date and on or prior to the related Interest Payment Date, in which event it shall bear interest from such Interest Payment Date, or unless it is registered and authenticated before the Record Date for the first Interest Payment Date, in which event it shall bear interest from the Issue Date; *provided, however*, that if, as shown by the records of the Paying Agent, interest on the Bonds shall be in default, Bonds issued in exchange for Bonds surrendered for registration of transfer or exchange shall bear interest from the last date to which interest has been paid in full or duly provided for on the Bonds, or, if no interest has been paid or duly provided for on the Bonds, from the Issue Date. Payment of the interest on any Bond (other than Unremarketed Bonds, which shall be paid in accordance with Section 2.02(i) hereof) shall be made to the person appearing on the bond registration books of the Registrar as the registered Owner thereof on the Record Date, such interest to be paid by the Paying Agent to such registered Owner (i) by bank check or draft mailed by first-class mail on the Interest Payment Date, to such Owner’s address as it appears on the registration books of the Registrar or at such other address as has been furnished to the Registrar in writing by such Owner, or (ii) during any Rate Period other than a Term Interest Rate Period in immediately available funds (by wire transfer or by

deposit to the account of the Owner of any such Bond if such account is maintained with the Paying Agent), but in respect of any Owner of Bonds during a Daily Interest Rate Period or a Weekly Interest Rate Period only to any Owner which owns Bonds in an aggregate principal amount of at least \$1,000,000 on the Record Date, according to the instructions given by such Owner to the Registrar or, if no such instructions have been provided as of the Record Date, by check mailed by first-class mail to the Owner at such Owner's address as it appears as of the Record Date on the registration books of the Registrar; except, in each case, that, if and to the extent that there shall be a default in the payment of the interest due on such Interest Payment Date, such defaulted interest shall be paid to the Owners in whose name any such Bonds are registered as of a special record date to be fixed by the Trustee, notice of which shall be given to such Owners not less than ten (10) days prior thereto. Both the principal of and premium, if any, on the Bonds shall be payable upon surrender thereof in lawful money of the United States of America at the Principal Office of the Paying Agent. Notwithstanding the foregoing, interest on any Bond bearing a Flexible Interest Rate shall be paid only upon presentation to the Trustee of the Bond on which such payment is due.

Section 2.02. Interest Rates and Rate Periods.

(a) GENERAL PROVISIONS.

(i) *General.* The Bonds shall bear interest from and including the date of the first authentication and delivery of the Bonds until final payment of the principal or redemption price thereof shall have been made or provided for in accordance with the provisions hereof, whether at maturity, upon redemption or otherwise, at the lesser of (A) the Maximum Interest Rate or (B) the interest rate or rates determined as provided in this Section 2.02. Such rate or rates shall be effective for the periods set forth in this Section 2.02. During any Rate Period other than a Term Interest Rate Period, interest on the Bonds shall be computed upon the basis of a 365- or 366-day year, as applicable, for the number of days actually elapsed. During any Term Interest Rate Period, interest on the Bonds shall be computed upon the basis of a 360-day year, consisting of twelve 30-day months. Notwithstanding any other provision of this Indenture, it shall not be required that all Bonds bear interest at the same rate, *provided* that no more than one Rate Period may apply to the Bonds except as provided in Section 2.02(e)(iv) hereof and except with respect to Unremarketed Bonds. Not later than 11:15 a.m. (New York time) on the Business Day immediately following the day on which there has been a change in the rate of interest applicable to the Bonds (other than in respect of Unremarketed Bonds), the Remarketing Agent shall give notice of such change to the Trustee by telephone. The Trustee hereby agrees to give telephonic notice to the Company on each Record Date of the amount of interest to be due and payable on the Bonds (other than in respect of Unremarketed Bonds) on the next succeeding Interest Payment Date.

(ii) *Rate Periods.* Other than Unremarketed Bonds, the term of the Bonds shall be divided into consecutive Rate Periods during which such Bonds shall bear interest at the Daily Interest Rate, Weekly Interest Rate, Flexible Interest Rate or Term Interest Rate; *provided, however,* that, to the extent determined in accordance with

Section 2.02(e)(iv)(B) hereof, a portion of the Bonds may bear interest at a Daily Interest Rate, a Weekly Interest Rate or a Term Interest Rate while other Bonds continue to bear interest at Flexible Interest Rates. The Bonds shall initially bear interest at a Daily Interest Rate and the Daily Interest Rate for each Bond initially issued shall be approved by the Executive Officer at or prior to the initial authentication and delivery of the Bonds. Thereafter, the Bonds shall bear interest as provided herein.

(b) DAILY INTEREST RATE.

(i) *Determination of Daily Interest Rate.* During each Daily Interest Rate Period, the Bonds (other than Unremarketed Bonds) shall bear interest at the Daily Interest Rate determined by the Remarketing Agent either on each Business Day for such Business Day or on the next preceding Business Day for the Business Day next succeeding such date of determination and as may be determined by the Remarketing Agent for any day that is not a Business Day on any such day during which there shall be active trading in Tax-Exempt obligations comparable to the Bonds for such day. The Daily Interest Rate shall be the rate determined by the Remarketing Agent (based on the examination of Tax-Exempt obligations comparable to the Bonds known by the Remarketing Agent to have been priced or traded under then-prevailing market conditions) to be the lowest rate which would enable the Remarketing Agent to sell the Bonds on the effective date of such rate at a price (without regard to accrued interest) equal to 100% of the principal amount thereof. If the Remarketing Agent shall not have determined a Daily Interest Rate for any day by 10:00 a.m., New York time, the Daily Interest Rate for such day shall be the same as the Daily Interest Rate for the immediately preceding day.

(ii) *Adjustment to Daily Interest Rate Period.* At any time, the Company, by written notice to the Issuer, the Trustee, the Paying Agent, the Remarketing Agent and the Agent Bank or the Agent Obligor on an Alternate Liquidity Facility, as the case may be, may elect that the Bonds (other than Unremarketed Bonds) shall bear interest at a Daily Interest Rate. Such notice (A) shall specify the effective date of such adjustment to a Daily Interest Rate, which shall be (1) a Business Day not earlier than the twentieth day following the third Business Day after the date of receipt by the Trustee and the Paying Agent of such notice (or such shorter period after the date of such receipt as shall be acceptable to the Trustee); (2) in the case of an adjustment from a Term Interest Rate Period, a day on which the Bonds would be permitted to be redeemed at the option of the Company pursuant to Section 4.02(b)(iii) hereof or the day immediately following the last day of the then-current Term Interest Rate Period; and (3) in the case of an adjustment from a Flexible Interest Rate Period, either (a) the day immediately following the last day of the then-current Flexible Interest Rate Period as determined in accordance with Section 2.02(e)(iv)(A) hereof, or (b) for each Bond, the day immediately following the last day of the last Flexible Segment for such Bond in the then-current Flexible Interest Rate Period (as determined in accordance with Section 2.02(e)(iv)(B) hereof); *provided, however*, that if prior to the Company's making such election, any Bonds (other than Unremarketed Bonds) shall have been called for redemption and such redemption shall not have theretofore been effected, the

effective date of such Daily Interest Rate Period shall not precede such redemption date; and (B) if the adjustment is from a Term Interest Rate Period having a duration in excess of one year, shall be accompanied by an opinion of Bond Counsel to the effect that such adjustment (1) is authorized or permitted by this Indenture and the Act, and (2) will not adversely affect the Tax-Exempt status of the interest on the Bonds.

(iii) *Notice of Adjustment to Daily Interest Rate Period.* The Trustee shall give notice by Mail of an adjustment to a Daily Interest Rate Period to the Owners not less than 20 days prior to the effective date of such Daily Interest Rate Period. Such notice shall state (A) that the interest rate on such Bonds will be adjusted to a Daily Interest Rate (subject to the Company's ability to rescind its election as provided in Section 2.02(g) hereof), (B) the effective date of such Daily Interest Rate Period, (C) that such Bonds are subject to mandatory purchase on such effective date, (D) the procedures for such mandatory purchase, (E) the purchase price of such Bonds on such effective date (expressed as a percentage of the principal amount thereof), and (F) that the Owners of such Bonds do not have the right to retain their Bonds on such effective date.

(c) WEEKLY INTEREST RATE.

(i) *Determination of Weekly Interest Rate.* During each Weekly Interest Rate Period, the Bonds (other than Unremarketed Bonds) shall bear interest at the Weekly Interest Rate determined by the Remarketing Agent no later than the first day of such Weekly Interest Rate Period and thereafter no later than Tuesday of each week during such Weekly Interest Rate Period, unless any such Tuesday shall not be a Business Day, in which event the Weekly Interest Rate shall be determined by the Remarketing Agent no later than the Business Day next preceding such Tuesday. The Weekly Interest Rate shall be the rate determined by the Remarketing Agent (based on the examination of Tax-Exempt obligations comparable to the Bonds known by the Remarketing Agent to have been priced or traded under then prevailing market conditions) to be the lowest rate which would enable the Remarketing Agent to sell the Bonds on the effective date of such rate at a price (without regard to accrued interest) equal to 100% of the principal amount thereof. If the Remarketing Agent shall not have determined a Weekly Interest Rate for any period, the Weekly Interest Rate shall be the same as the Weekly Interest Rate in effect for the immediately preceding week. The first Weekly Interest Rate determined for each Weekly Interest Rate Period shall apply to the period commencing on the first day of such Rate Period and ending on the next succeeding Tuesday. Thereafter, each Weekly Interest Rate shall apply to the period commencing on each Wednesday and ending on the next succeeding Tuesday, unless such Weekly Interest Rate Period shall end on a day other than Tuesday, in which event the last Weekly Interest Rate for such Weekly Interest Rate Period shall apply to the period commencing on the Wednesday preceding the last day of such Weekly Interest Rate Period and ending on such last day.

(ii) *Adjustment to Weekly Interest Rate Period.* The Company, by written notice to the Issuer, the Trustee, the Paying Agent, the Remarketing Agent and the Agent Bank or the Agent Obligor on an Alternate Liquidity Facility, as the case may be,

may at any time elect that the Bonds (other than Unremarketed Bonds) shall bear interest at a Weekly Interest Rate. Such notice (A) shall specify the effective date of such adjustment to a Weekly Interest Rate, which shall be (1) a Business Day not earlier than the twentieth day following the third Business Day after the date of receipt by the Trustee and the Paying Agent of such notice (or such shorter period after the date of such receipt as shall be acceptable to the Trustee); (2) in the case of an adjustment from a Term Interest Rate Period, a day on which the Bonds would be permitted to be redeemed at the option of the Company pursuant to Section 4.02(b)(iii) hereof or the day immediately following the last day of the then-current Term Interest Rate Period; and (3) in the case of an adjustment from a Flexible Interest Rate Period either (a) the day immediately following the last day of the then-current Flexible Interest Rate Period as determined in accordance with Section 2.02(e)(iv)(A) hereof, or (b) for each Bond, the day immediately following the last day of the last Flexible Segment for such Bond in the then-current Flexible Interest Rate Period as determined in accordance with Section 2.02(e)(iv)(B) hereof; *provided, however*, that if prior to the Company's making such election, any Bonds (other than Unremarketed Bonds) shall have been called for redemption and such redemption shall not have theretofore been effected, the effective date of such Weekly Interest Rate Period shall not precede such redemption date; and (B) if the adjustment is from a Term Interest Rate Period having a duration in excess of one year, shall be accompanied by an opinion of Bond Counsel to the effect that such adjustment (1) is authorized or permitted by this Indenture and the Act, and (2) will not adversely affect the Tax-Exempt status of interest on the Bonds.

(iii) *Notice of Adjustment to Weekly Interest Rate Period.* The Trustee shall give notice by Mail of an adjustment to a Weekly Interest Rate Period to the Owners not less than 20 days prior to the effective date of such Weekly Interest Rate Period. Such notice shall state (A) that the interest rate on such Bonds will be adjusted to a Weekly Interest Rate (subject to the Company's ability to rescind its election as provided in Section 2.02(g) hereof), (B) the effective date of such Weekly Interest Rate Period, (C) that such Bonds are subject to mandatory purchase on such effective date, (D) the procedures for such mandatory purchase, (E) the purchase price of such Bonds on such effective date (expressed as a percentage of the principal amount thereof), and (F) that the Owners of such Bonds do not have the right to retain their Bonds on such effective date.

(d) TERM INTEREST RATE.

(i) *Determination of Term Interest Rate.* During each Term Interest Rate Period, the Bonds (other than Unremarketed Bonds) shall bear interest at the Term Interest Rate determined by the Remarketing Agent on a Business Day selected by the Remarketing Agent, but not more than 30 days prior to and not later than the effective date of such Term Interest Rate Period. The Term Interest Rate shall be the rate determined by the Remarketing Agent on such date, and communicated on such date to the Trustee, the Paying Agent and the Company, by written notice or by telephone promptly confirmed by telecopy or other writing, as being the lowest rate (based on the examination of Tax-Exempt obligations comparable to the Bonds known by the

Remarketing Agent to have been priced or traded under then prevailing market conditions) which would enable the Remarketing Agent to sell the Bonds on the effective date of such Term Interest Rate Period at a price (without regard to accrued interest) equal to 100% of the principal amount thereof; *provided, however*, that if, for any reason, a Term Interest Rate for any Term Interest Rate Period shall not be determined or become effective, then (A) in the event the then-current Term Interest Rate Period is for one year or less, the Rate Period for the Bonds shall automatically convert to a Daily Interest Rate Period and (B) in the event the current Term Interest Rate Period is for more than one year, the Rate Period for the Bonds shall automatically adjust to a Term Interest Rate Period of one year and one day; *provided, however*, that if the last day of any successive Term Interest Rate Period shall not be a day immediately preceding a Business Day, then such successive Term Interest Rate Period shall end on the first day immediately preceding the Business Day next succeeding such day or, if such Term Interest Rate Period would end after the day prior to the final maturity date of the Bonds, the next succeeding Rate Period shall be a Term Interest Rate Period ending on the day prior to the final maturity date of the Bonds; *provided further* that in the case of clause (B) above, if the Company delivers to the Trustee an approving opinion of Bond Counsel prior to the end of the then-effective Term Interest Rate Period, the Rate Period for the Bonds will adjust to a Daily Interest Rate Period. If the Daily Interest Rate for the first day of any such Daily Interest Rate Period is not determined as provided in Section 2.02(b)(i) hereof, the Daily Interest Rate for the first day of such Daily Interest Rate Period shall be 80% of the most recent One-Year Note Index theretofore published in *The Bond Buyer* (or, if *The Bond Buyer* is no longer published or no longer publishes the One-Year Note Index, the one-year note index contained in the publication determined by the Remarketing Agent as the most comparable to *The Bond Buyer*). If a Term Interest Rate for any such Term Interest Rate Period described in clause (B) above is not determined as described in the second preceding sentence, the Term Interest Rate for such Term Interest Rate Period shall be 100% of the most recent One-Year Note Index theretofore published in *The Bond Buyer* (or, if *The Bond Buyer* is no longer published or no longer publishes the One-Year Note Index, the one-year note index contained in the publication determined by the Remarketing Agent as the most comparable to *The Bond Buyer*).

(ii) *Adjustment to or Continuation of Term Interest Rate Period.* At any time, the Company, by written notice to the Issuer, the Trustee, the Paying Agent, the Remarketing Agent and the Agent Bank or the Agent Obligor on an Alternate Liquidity Facility, may elect that the Bonds (other than Unremarketed Bonds) shall bear, or continue to bear, interest at a Term Interest Rate, and if it shall so elect, shall determine the duration of the Term Interest Rate Period during which such Bonds shall bear interest at such Term Interest Rate. At the time the Company so elects an adjustment to or continuation of a Term Interest Rate Period, the Company may specify two or more consecutive Term Interest Rate Periods and, if the Company so specifies, shall specify the duration of each such Term Interest Rate Period as provided in this paragraph (ii). Such notice shall specify the effective date of each Term Interest Rate Period, which shall be (A) a Business Day not earlier than the twentieth day following the third Business Day after the date of receipt by the Trustee and the Paying Agent of such

notice (or such shorter period after the date of such receipt as shall be acceptable to the Trustee); (B) in the case of an adjustment from or continuation of a Term Interest Rate Period, a day on which the Bonds would be permitted to be redeemed at the option of the Company pursuant to Section 4.02(b)(iii) hereof or the day immediately following the last day of the then-current Term Interest Rate Period; and (C) in the case of an adjustment from a Flexible Interest Rate Period either (1) the day immediately following the last day of the then-current Flexible Interest Rate Period as determined in accordance with Section 2.02(e)(iv)(A) hereof, or (2) for each Bond, the day immediately following the last day of the last Flexible Segment for such Bond in the then-current Flexible Interest Rate Period as determined in accordance with Section 2.02(e)(iv)(B) hereof; *provided, however*, that if prior to the Company's making such election, any Bonds (other than Unremarketed Bonds) shall have been called for redemption and such redemption shall not have theretofore been effected, the effective date of such Term Interest Rate Period shall not precede such redemption date. In addition, such notice (x) shall specify the last day of such Term Interest Rate Period (which shall be either the day preceding the date of final maturity of the Bonds or a day which both immediately precedes a Business Day and is at least one year after such effective date), and (y) unless such Term Interest Rate Period immediately succeeds a Term Interest Rate Period of the same duration and is subject to the same optional redemption rights under Section 4.02(b)(iii) hereof, shall be accompanied by an opinion of Bond Counsel to the effect that such adjustment (i) is authorized or permitted by this Indenture and the Act, and (ii) will not adversely affect the Tax-Exempt status of interest on the Bonds.

If, by 20 days prior to the end of the then-current Term Interest Rate Period, the Trustee shall not have received notice of the Company's election that the Bonds (other than Unremarketed Bonds) shall bear interest at a Daily Interest Rate, a Weekly Interest Rate, a Term Interest Rate or a Flexible Rate accompanied by appropriate opinions of Bond Counsel, the next succeeding Rate Period shall be (A) in the event the then-current Term Interest Rate Period is for one year or less, the Rate Period for the Bonds shall automatically convert to a Daily Interest Rate Period and (B) in the event the current Term Interest Rate Period is for more than one year, the Rate Period for the Bonds shall automatically adjust to a Term Interest Rate Period of one year and one day; *provided, however*, that if the last day of any successive Term Interest Rate Period shall not be a day immediately preceding a Business Day, then such successive Term Interest Rate Period shall end on the first day immediately preceding the Business Day next succeeding such day or, if such Term Interest Rate Period would end after the day prior to the final maturity date of the Bonds, the next succeeding Rate Period shall be a Term Interest Rate Period ending on the day prior to the final maturity date of the Bonds; *provided, further*, that in the case of clause (B) above, if the Company delivers to the Trustee an approving opinion of Bond Counsel prior to the end of the then-effective Term Interest Rate Period, the Rate Period for the Bonds will adjust to a Daily Interest Rate Period. If the Daily Interest Rate for the first day of any such Daily Interest Rate Period is not determined as provided in Section 2.02(b)(i) hereof, the Daily Interest Rate for the first day of such Daily Interest Rate Period shall be 80% of the most recent One-Year Note Index theretofore published in *The Bond*

Buyer (or, if *The Bond Buyer* is no longer published or no longer publishes the One-Year Note Index, the one-year note index contained in the publication determined by the Remarketing Agent as the most comparable to *The Bond Buyer*). If a Term Interest Rate for any such Term Interest Rate Period described in clause (B) above is not determined as described in the second preceding sentence, the Term Interest Rate for such Term Interest Rate Period shall be 100% of the most recent One-Year Note Index theretofore published in *The Bond Buyer* (or, if *The Bond Buyer* is no longer published or no longer publishes the One-Year Note Index, the one-year note index contained in the publication determined by the Remarketing Agent as the most comparable to *The Bond Buyer*).

At the same time that the Company elects to have the Bonds (other than Unremarketed Bonds) bear interest at a Term Interest Rate or to continue to bear interest at a Term Interest Rate, the Company may also elect that such Term Interest Rate Period shall be automatically renewed for successive Term Interest Rate Periods each having the same duration as the Term Interest Rate Period so specified; *provided, however,* that such election must be accompanied by an opinion of Bond Counsel to the effect that such continuing automatic renewals of such Term Interest Rate Period (1) are authorized or permitted by this Indenture and the Act, and (2) will not adversely affect the Tax-Exempt status of interest on the Bonds. If such election is made, no opinion of Bond Counsel shall be required in connection with the commencement of each successive Term Interest Rate Period determined in accordance with such election. Further, at the same time that the Company elects to have the Bonds (other than Unremarketed Bonds) bear interest at a Term Interest Rate or continue to bear interest at a Term Interest Rate, subject to the provisions of Section 4.02(c) hereof, the Company may also specify to the Trustee optional redemption prices and periods different from those set out in Section 4.02 hereof during the Term Interest Rate Period(s) with respect to which such election is made.

(iii) *Notice of Adjustment to or Continuation of Term Interest Rate Period.* The Trustee shall give notice by Mail of an adjustment to or continuation of a Term Interest Rate Period to the Owners not less than 20 days prior to the effective date of such Term Interest Rate Period. Such notice shall state (A) that the interest rate on such Bonds will be adjusted to, or continue to be, a Term Interest Rate (subject to the Company's ability to rescind its election as provided in Section 2.02(g) hereof), (B) the effective date and the last date of such Term Interest Rate Period, (C) that the Term Interest Rate for such Term Interest Rate Period will be determined not later than the effective date thereof, (D) how such Term Interest Rate may be obtained from the Remarketing Agent, (E) the Interest Payment Dates after such effective date, (F) that, during such Term Interest Rate Period, the Owners of such Bonds will not have the right to tender their Bonds for purchase, (G) that, except when the new Term Interest Rate Period is preceded by a Term Interest Rate Period of the same duration, such Bonds are thereby subject to mandatory purchase on such effective date, and (H) the redemption provisions that will apply to such Bonds during such Term Interest Rate Period.

(e) FLEXIBLE INTEREST RATE.

(i) *Determination of Flexible Segments and Flexible Interest Rates.* During each Flexible Interest Rate Period, each Bond (other than Unremarketed Bonds) shall bear interest during each Flexible Segment for such Bond at the Flexible Interest Rate for such Bond as described herein. Each Flexible Segment and Flexible Interest Rate for each Bond shall be the Flexible Segment and Flexible Interest Rate determined by the Remarketing Agent. Each Flexible Segment for any Bond shall be a period, of not less than one nor more than 365 days (subject to any limitations set forth in the Remarketing Agreement), determined by the Remarketing Agent to be, in its judgment, the period which, together with all other Flexible Segments for all Bonds then outstanding, is likely to result in the lowest overall net interest expense on the Bonds; *provided, however*, that (A) any such Bond purchased on behalf of the Company and remaining unsold in the hands of the Remarketing Agent as of the close of business on the effective date of the Flexible Segment for such Bond shall have a Flexible Segment of one day or, if such Flexible Segment would not end on a day immediately preceding a Business Day, a Flexible Segment of more than one day ending on the day immediately preceding the next Business Day and (B) each Flexible Segment shall end on a day which immediately precedes a Business Day and no Flexible Segment shall extend beyond the final maturity date of the Bonds.

The Flexible Interest Rate for each Flexible Segment for each Bond (other than Unremarketed Bonds) shall be the rate determined by the Remarketing Agent (based on the examination of Tax-Exempt obligations comparable to the Bonds known by the Remarketing Agent to have been priced or traded under then prevailing market conditions) no later than the first day of such Flexible Segment (and in the case of a Flexible Segment of one day, no later than 12:30 p.m. New York time, on such date) to be the lowest rate which would enable the Remarketing Agent to sell the Bonds on the effective date of such rate at a price (without regard to accrued interest) equal to 100% of the principal amount thereof. If a Flexible Segment or a Flexible Interest Rate for a Flexible Segment is not determined or effective, the Flexible Segment for such Bond shall be a Flexible Segment of one day, and the interest rate for such Flexible Segment of one day shall be 80% of the most recent One-Year Note Index theretofore published in *The Bond Buyer* (or, if *The Bond Buyer* is no longer published or no longer publishes the One-Year Note Index, the one-year note index contained in the publication determined by the Remarketing Agent as most comparable to *The Bond Buyer*).

(ii) *Adjustment to Flexible Interest Rate Period.* At any time, the Company, by written notice to the Issuer, the Trustee, the Paying Agent, the Remarketing Agent and the Agent Bank or the Agent Obligor on an Alternate Liquidity Facility, may elect that the Bonds (other than Unremarketed Bonds) shall bear interest at Flexible Interest Rates. Such notice (A) shall specify the effective date of the Flexible Interest Rate Period during which such Bonds shall bear interest at Flexible Interest Rates, which shall be (1) a Business Day not earlier than the twentieth day following the third Business Day after the date of receipt by the Trustee and the Paying Agent of such notice (or such shorter period after the date of such receipt as shall be acceptable to the

Trustee), and (2) in the case of an adjustment from a Term Interest Rate Period, a day on which the Bonds would be permitted to be redeemed at the option of the Company pursuant to Section 4.02(b)(iii) hereof or the day immediately following the last day of the then-current Term Interest Rate Period; *provided, however*, that if prior to the Company's making such election any Bonds shall have been called for redemption and such redemption shall not have theretofore been effected, the effective date of such Flexible Interest Rate Period shall not precede such redemption date; and (B) in the case of an adjustment from a Term Interest Rate Period having a duration in excess of one year, shall be accompanied by an opinion of Bond Counsel to the effect that such adjustment (1) is authorized or permitted by this Indenture and the Act and (2) will not adversely affect the Tax-Exempt status of interest on the Bonds. During each Flexible Interest Rate Period commencing on the date so specified (provided that the opinion of Bond Counsel described in clause (B) above, if required, is reaffirmed as of such date) and ending on the day immediately preceding the effective date of the next succeeding Rate Period, each Bond shall bear interest at a Flexible Interest Rate during each Flexible Segment for such Bond.

(iii) *Notice of Adjustment to Flexible Interest Rate Period.* The Trustee shall give notice by Mail of an adjustment to a Flexible Interest Rate Period to the Owners not less than 20 days prior to the effective date of such Flexible Interest Rate Period. Such notice shall state (A) that the interest rate on the Bonds will be adjusted to Flexible Interest Rates (subject to the Company's ability to rescind its election as provided in Section 2.02(g) hereof), (B) the effective date of such Flexible Interest Rate Period, (C) that such Bonds are thereby subject to mandatory purchase on the effective date of such Flexible Interest Rate Period, (D) the procedures for such mandatory purchase, and (E) that the Owners of such Bonds do not have the right to retain their Bonds on such effective date.

(iv) *Adjustment from Flexible Interest Rates.* At any time during a Flexible Interest Rate Period, the Company may elect that the Bonds shall no longer bear interest at Flexible Interest Rates and shall instead bear interest as otherwise permitted under this Indenture. The Company shall notify the Issuer, the Trustee, the Paying Agent and the Remarketing Agent of such election by Mail and shall specify the Rate Period to follow with respect to such Bonds upon cessation of the Flexible Interest Rate Period and instruct the Remarketing Agent to (A) determine Flexible Segments of such duration that, as soon as possible, all Flexible Segments shall end on the same date, not earlier than the eleventh day following the third Business Day (or such shorter period acceptable to the Trustee), following the receipt by the Trustee and the Paying Agent of the notice required by the second succeeding sentence, which date shall be the last day of the then-current Flexible Interest Rate Period, and, upon the establishment of such Flexible Segments the day next succeeding the last day of all such Flexible Segments, shall be the effective date of the Rate Period elected by the Company; or (B) determine Flexible Segments that will in the judgment of the Remarketing Agent best promote an orderly transition to the next succeeding Rate Period to apply to such Bonds, beginning not earlier than the eleventh day following the third Business Day (or such shorter period acceptable to the Trustee) following the receipt by the Trustee and Paying Agent

of the notice required by the second succeeding sentence. If the alternative in clause (B) above is selected, the day next succeeding the last day of the Flexible Segment for each Bond shall be with respect to such Bond the effective date of the Rate Period elected by the Company. The Remarketing Agent, promptly upon the determination thereof, shall give written notice of such last day and such effective dates to the Issuer, the Company, the Trustee and the Paying Agent. During any transitional period from a Flexible Interest Rate Period to the next succeeding Rate Period in accordance with clause (B) above, the provisions of this Indenture relating to the Bonds shall be deemed to apply to the Bonds as follows: The Bonds continuing to bear interest at Flexible Interest Rates shall have applicable to them the provisions hereunder theretofore applicable to such Bonds as if all Bonds were continuing to bear interest at Flexible Interest Rates and the Bonds bearing interest at the Rate to which the transition is being made will have applicable to them the provisions hereunder as if all Bonds were bearing interest at such Rate.

(f) DETERMINATION CONCLUSIVE. The determination of any Flexible Interest Rate, Daily Interest Rate, Weekly Interest Rate and Term Interest Rate and each Flexible Segment by the Remarketing Agent shall be conclusive and binding upon the Remarketing Agent, the Trustee, the Paying Agent, the Issuer, the Company and the Owners of the Bonds.

(g) RESCISSION OF ELECTION. Notwithstanding anything herein to the contrary, the Company may rescind any election by it to adjust to or, in the case of a Term Interest Rate Period, continue a Rate Period pursuant to Section 2.02(b), Section 2.02(c), Section 2.02(d) or Section 2.02(e) hereof prior to the effective date of such adjustment or continuation by giving written notice thereof to the Issuer, the Trustee, the Paying Agent and the Remarketing Agent prior to such effective date. At the time that the Company gives notice of rescission, it may also elect in such notice to continue the Rate Period then in effect; *provided, however*, that if the Rate Period then in effect is a Term Interest Rate Period, the subsequent Term Interest Rate Period shall not be of a different duration than the Term Interest Rate Period then in effect unless the Company provides to the Trustee an approving opinion of Bond Counsel prior to the expiration of the then-current Term Interest Rate Period. If the Trustee receives notice of such rescission prior to the time the Trustee has given notice to the Owners of the Bonds of the change in or continuation of Rate Periods pursuant to Section 2.02(b), Section 2.02(c), Section 2.02(d) or Section 2.02(e) hereof, then such notice of change in or continuation of Rate Periods shall be of no force and effect and shall not be given to the Owners. If the Trustee receives notice of such rescission after the Trustee has given notice to the Owners of the Bonds pursuant to Section 2.02(b), Section 2.02(c), Section 2.02(d) or Section 2.02(e) hereof of an adjustment from other than a Term Interest Rate Period in excess of one year or an attempted adjustment from one Rate Period (other than a Term Interest Rate Period in excess of one year) to another Rate Period does not become effective for any other reason and if the Company does not elect to continue the Term Interest Rate Period then in effect, then the Rate Period for the Bonds shall automatically adjust to or continue in a Daily Interest Rate Period and the Trustee shall immediately give notice thereof to the Owners of the Bonds. If the Trustee receives notice of such rescission after the Trustee has given notice to the Owners of the Bonds pursuant to Section 2.02(b), Section 2.02(c), Section 2.02(d) or Section 2.02(e) hereof of an adjustment from a Term Interest Rate Period in excess of one year

to another Rate Period (including a Term Interest Rate Period of a different duration), or if an attempted adjustment from a Term Interest Rate Period in excess of one year to another Rate Period (including a Term Interest Rate Period of a different duration) does not become effective for any reason and if the Company does not elect to continue the Rate Period then in effect, then the Rate Period for the Bonds shall continue to be a Term Interest Rate Period of the same duration as the immediately preceding Term Interest Rate Period, subject to the second proviso contained in Section 2.02(d)(i); *provided* that if the Company delivers to the Trustee an approving opinion of Bond Counsel prior to the end of the then effective Term Interest Rate Period, the Rate Period for the Bonds shall be as directed by the Company in writing. If a Daily Interest Rate for the first day of any Daily Interest Rate Period to which a Rate Period is adjusted under this Section 2.02(g) is not determined as provided in Section 2.02(b)(i) hereof, the Daily Interest Rate for the first day of such Daily Interest Rate Period shall be 80% of the most recent One-Year Note Index theretofore published in *The Bond Buyer* (or, if *The Bond Buyer* is no longer published or no longer publishes the One-Year Note Index, the one-year note index contained in the publication determined by the Remarketing Agent as most comparable to *The Bond Buyer*). The Trustee shall immediately give written notice of each such automatic adjustment to a Rate Period pursuant to this Section 2.02(g) to the Owners in the form provided in Section 2.02(b)(iii) hereof.

Notwithstanding the rescission by the Company of any notice to adjust or continue a Rate Period, if notice has been given to Owners pursuant to Section 2.02(b)(iii), Section 2.02(c)(iii), Section 2.02(d)(iii) or Section 2.02(e)(iii), the Bonds shall be subject to mandatory purchase as specified in such notice.

The foregoing provisions in this Section 2.02(g) shall not apply to Unremarketed Bonds.

(h) **UNREMARKETED BOND INTEREST RATE.** Unremarketed Bonds shall bear interest at the Unremarketed Bond Interest Rate from and including the date such Bonds are purchased with moneys provided by the Standby Purchase Agreement or an Alternate Liquidity Facility, as the case may be, until (but not including) the day such Unremarketed Bonds are remarketed pursuant to Section 3.04(b) hereof and delivered to the purchasers thereof or the day the principal of such Unremarketed Bonds is paid at maturity or upon acceleration or upon redemption. After such delivery to the purchasers thereof, such Bonds shall initially bear interest at the same Rate as such Bonds bore prior to becoming Unremarketed Bonds (and if such Rate is a Term Rate, the initial Term Interest Rate Period shall be of the same duration as the Term Interest Rate Period in effect immediately prior to such Bonds becoming Unremarketed Bonds (unless such Term Interest Rate Period would extend beyond the maturity of such Bonds, in which case such Term Interest Rate Period shall end on such maturity) and may thereafter be converted to other Rates in accordance with the provisions hereof. The delivery date of the Unremarketed Bonds that have been remarketed pursuant to Section 3.04(b) hereof shall be an appropriate date under the provisions of this Section for the commencement of a Rate Period for the type of Rate that is to be effective for such Bonds after such delivery. Payments of interest on Unremarketed Bonds shall be made on each Interest Payment Date with respect to such Unremarketed Bonds. Upon the remarketing of Unremarketed Bonds, such Unremarketed Bonds shall cease to be

Unremarketed Bonds and shall cease to bear interest at the Unremarketed Bond Interest Rate. The Bonds shall bear interest at the Unremarketed Bond Interest Rate only while such Bonds are held by or for the benefit of a Bank or an Obligor on an Alternate Liquidity Facility.

(i) **PAYMENT OF INTEREST ON UNREMARKETED BONDS.** (A) Payment of interest on the Unremarketed Bonds shall be made in accordance with the provisions of the Liquidity Agreement.

(B) The Trustee is hereby directed to give notice to DTC on every Interest Payment Date while a Standby Purchase Agreement or an Alternate Liquidity Facility is in effect and Unremarketed Bonds are Outstanding that DTC is not to pay, and will not be receiving from the Trustee, interest on the Unremarketed Bonds recorded in the books of DTC for the account of the Trustee (and identifying the principal amount of such Bonds). Interest on such Unremarketed Bonds will be paid by the Company to the Agent Bank or the Agent Obligor on an Alternate Liquidity Facility pursuant to the Liquidity Agreement.

Section 2.03. Form of Bonds. The Bonds and the certificate of authentication to be executed thereon shall be in substantially the form attached hereto as *Exhibit A*, with such appropriate variations, omissions and insertions as are permitted or required by this Indenture. Upon adjustment to a Term Interest Rate Period, the form of Bond may include a summary of the mandatory and optional redemption provisions to apply to the Bonds during such Term Interest Rate Period, or a statement to the effect that the Bonds will not be optionally redeemed during such Term Interest Rate Period, *provided* that the Registrar shall not authenticate such a revised Bond form prior to receiving an opinion of Bond Counsel that such Bond form satisfies the requirements of the Act and of this Indenture and that authentication thereof will not adversely affect the Tax-Exempt status of the Bonds.

Section 2.04. Execution of Bonds. The Bonds shall be signed in the name and on behalf of the Issuer with the manual or facsimile signature of its Executive Officer and attested by the manual or facsimile signature of its Clerk, under the seal of the Issuer. Such seal may be in the form of a facsimile of the Issuer's seal and may be imprinted or impressed upon the Bonds. The Bonds shall then be delivered to the Registrar for authentication by it. In case any officer who shall have signed any of the Bonds shall cease to be such officer before the Bonds so signed or attested shall have been authenticated or delivered by the Registrar or issued by the Issuer, such Bonds may nevertheless be authenticated, delivered and issued and, upon such authentication, delivery and issuance, shall be as binding upon the Issuer as though those who signed and attested the same had continued to be such officers of the Issuer. Also, any Bond may be signed on behalf of the Issuer by such persons as on the actual date of the execution of such Bond shall be the proper officers although on the nominal date of such Bond any such person shall not have been such officer.

Only such of the Bonds as shall bear thereon a certificate of authentication in the form of the Bond attached as *Exhibit A* hereto, manually executed by the Registrar, shall be valid or obligatory for any purpose or entitled to the benefits of this Indenture, and such certificate of the Registrar shall be conclusive evidence that the Bonds so authenticated have been duly authenticated and delivered hereunder and are entitled to the benefits of this Indenture.

Upon authentication of any Bond, the Registrar shall set forth on such Bond (1) the date of such authentication and (2) in the case of a Bond bearing interest at a Flexible Interest Rate, such Flexible Interest Rate, the day next succeeding the last day of the applicable Flexible Segment, the number of days comprising such Flexible Segment and the amount of interest to accrue during such Flexible Segment.

Section 2.05. Transfer and Exchange of Bonds. Registration of any Bond may, in accordance with the terms of this Indenture, be transferred at the Principal Office of the Registrar, upon the books of the Registrar required to be kept pursuant to the provisions of Section 2.06 hereof, by the Person in whose name it is registered, in person or by its attorney duly authorized in writing, upon surrender of such Bond for cancellation, accompanied by a written instrument of transfer in a form approved by the Registrar, duly executed. The Registrar shall require the payment by the Owner of the Bond requesting such transfer of any tax or other governmental charge required to be paid and there shall be no other charge to any Owners for any such transfer. Whenever any Bond shall be surrendered for registration of transfer, the Issuer shall execute and the Registrar shall authenticate and deliver a new Bond or Bonds of the same tenor and of Authorized Denominations. Except with respect to Bonds purchased pursuant to Sections 3.01 and 3.02 hereof, no registration of transfer of Bonds shall be required to be made for a period of fifteen (15) days next preceding the date on which the Trustee gives any notice of redemption, nor shall any registration of transfer of Bonds called for redemption be required.

Bonds may be exchanged at the Principal Office of the Registrar for a like aggregate principal amount of Bonds of the same tenor and of Authorized Denominations. The Registrar shall require the payment by the Owner of the Bond requesting such exchange of any tax or other governmental charge required to be paid with respect to such exchange, and there shall be no other charge to any Owners for any such exchange. Except with respect to Bonds purchased pursuant to Section 3.01 and Section 3.02 hereof, no exchange of Bonds shall be required to be made for a period of fifteen (15) days next preceding the date on which the Trustee gives notice of redemption, nor shall any exchange of Bonds called for redemption be required.

The Issuer, the Registrar, the Trustee and any agent of the Issuer, the Registrar or the Trustee may treat the person in whose name the Bond is registered as the owner thereof for the purpose of receiving payment as herein provided and for all other purposes, whether or not the Bond be overdue, and neither the Issuer, the Registrar, the Trustee, any paying agent nor any such agent shall be affected by notice to the contrary.

Section 2.06. Bond Register. The Registrar will keep or cause to be kept at its Principal Office sufficient books for the registration and the registration of transfer of the Bonds, which shall at all times, during regular business hours, be open to inspection by the Issuer, the Trustee, the Insurer, each Bank (or each Obligor on an Alternate Liquidity Facility, as the case may be), the Remarketing Agent and the Company; and, upon presentation for such purpose, the Registrar shall, under such reasonable regulations as it may prescribe, register the transfer or cause to be registered the transfer, on said books, Bonds as hereinbefore provided.

Section 2.07. Bonds Mutilated, Lost, Destroyed or Stolen. If any Bond shall become mutilated, the Issuer, upon the request and at the expense of the Owner of said Bond, shall execute, and the Registrar shall thereupon authenticate and deliver, a new Bond of like tenor and number in exchange and substitution for the Bond so mutilated, but only upon surrender to the Registrar of the Bond so mutilated. Every mutilated Bond so surrendered to the Registrar shall be cancelled by it and destroyed and, upon the written request of the Issuer, a certificate evidencing such destruction shall be delivered to the Issuer. If any Bond issued hereunder shall be lost, destroyed or stolen, evidence of such loss, destruction or theft may be submitted to the Issuer, the Company and the Registrar, and if such evidence shall be satisfactory to them and indemnity satisfactory to them shall be given, the Issuer, at the expense of the Owner, shall execute, and the Registrar shall thereupon authenticate and deliver, a new Bond of like tenor in lieu of and in substitution for the Bond so lost, destroyed or stolen (or if any such Bond shall have matured or shall be about to mature, instead of issuing a substitute Bond the Registrar may pay the same without surrender thereof). The Issuer may require payment of a reasonable fee for each new Bond issued under this Section 2.07 and payment of the expenses which may be incurred by the Issuer and the Registrar. Any Bond issued under the provisions of this Section in lieu of any Bond alleged to be lost, destroyed or stolen shall constitute an original additional contractual obligation on the part of the Issuer whether or not the Bond so alleged to be lost, destroyed or stolen be at any time enforceable by anyone, and shall be equally and proportionately entitled to the benefits of this Indenture with all other Bonds secured by this Indenture.

Section 2.08. Bonds; Limited Obligations. The Bonds, together with premium, if any, and interest thereon, shall be limited and not general obligations of the Issuer not constituting or giving rise to a pecuniary liability of the Issuer nor any charge against its general credit or taxing powers nor an indebtedness of or a loan of credit thereof within the meaning of any provision or limitation of the State constitution or statutes, shall be payable solely from the Revenues and other moneys pledged therefor under this Indenture, and shall be a valid claim of the respective Owners thereof only against the Bond Fund, the Revenues and other moneys held by the Trustee as part of the Trust Estate. The Issuer shall not be obligated to pay the purchase price of Bonds from any source.

No recourse shall be had for the payment of the principal of, or premium, if any, or interest on any of the Bonds or for any claim based thereon or upon any obligation, covenant or agreement in this Indenture contained, against any past, present or future officer, elected official, agent or employee of the Issuer, or any incorporator, officer, director or member of any successor corporation, as such, either directly or through the Issuer or any successor corporation, under any rule of law or equity, statute or constitution or by the enforcement of any assessment or penalty or otherwise, and all such liability of any such incorporator, officer, director or member as such is hereby expressly waived and released as a condition of and in consideration for the execution of this Indenture and the issuance of any of the Bonds.

Section 2.09. Payments Pursuant to the Insurance Policy. So long as the Insurance Policy shall be in effect, the Trustee, Registrar and Paying Agent shall observe the following provisions respecting the Insurance Policy:

(a) If on the Business Day prior to each Interest Payment Date and prior to each date upon which the principal of the Bonds becomes due at maturity or pursuant to an Unremarketed Bonds Redemption or pursuant to a mandatory redemption effected pursuant to Section 4.03(b) hereof, the Trustee has received actual notice that sufficient amounts will not be on deposit in the Bond Fund on such date to pay the principal of or interest on the Bonds then maturing or subject to an Unremarketed Bonds Redemption, or if the Trustee determines on any Interest Payment Date or on any date upon which the principal of the Bonds becomes due at maturity or pursuant to an Unremarketed Bonds Redemption or pursuant to a mandatory redemption effected pursuant to Section 4.03(b) hereof that there are not sufficient funds in the Bond Fund to pay the principal of or interest on the Bonds coming due on such date, the Trustee shall so notify the Insurer. Such notice shall specify the amount of the anticipated or actual deficiency, as the case may be, the Bonds to which such deficiency is applicable and whether such Bonds will be or are deficient as to principal or interest, or both. If the Trustee has not so notified the Insurer at least one day prior to an Interest Payment Date or prior to any date upon which the principal of the Bonds becomes due at maturity or pursuant to an Unremarketed Bonds Redemption or pursuant to a mandatory redemption effected pursuant to Section 4.03(b) hereof, the Insurer will make payments of principal or interest, or both, due on the Bonds on or before the first Business Day next following the date on which the Insurer shall have received notice of nonpayment from the Trustee.

(b) The Trustee shall, after giving notice to the Insurer as provided in (a) above, make available to the Insurer and, at the Insurer's direction, to the Insurance Trustee, the registration books of the Issuer maintained by the Registrar, and all records relating to the Bond Fund and any other funds and accounts maintained under this Indenture.

(c) The Trustee or the Registrar shall provide the Insurer and the Insurance Trustee with a list of Owners entitled to receive principal or interest payments from the Insurer under the terms of the Insurance Policy, and shall make arrangements with the Insurance Trustee (i) to mail checks or drafts to the Owners entitled to receive full or partial interest payments from the Insurer and (ii) to pay principal upon Bonds surrendered or, if a book-entry system is in effect, ownership interests in Bonds transferred to the Insurance Trustee by the Owners or Beneficial Owners entitled to receive full or partial principal payments from the Insurer.

(d) The Trustee shall, at the time it provides notice to the Insurer pursuant to (a) above, notify the Owners entitled to receive the payment of principal thereof or interest thereon from the Insurer (i) as to the fact of such entitlement, (ii) that the Insurer will remit to them all or a part of the interest payments next coming due upon proof of the entitlement of such Owners to interest payments and delivery to the Insurance Trustee, in form satisfactory to the Insurance Trustee, of an appropriate assignment of the Owner's right to payment, (iii) that should they be entitled to receive full payment of principal from the Insurer, they must surrender their Bonds (along with an appropriate instrument of assignment in form satisfactory to the Insurance Trustee to

permit ownership of such Bonds to be registered in the name of the Insurer) for payment to the Insurance Trustee, and not the Trustee or Paying Agent, and (iv) that should they be entitled to receive partial payment of principal from the Insurer, they must surrender their Bonds for payment thereon first to the Paying Agent, which shall note on such Bonds the portion of the principal previously paid by the Paying Agent, and then, along with an appropriate instrument of assignment in form satisfactory to the Insurance Trustee, to the Insurance Trustee, which will then pay the unpaid portion of principal thereof. At any time that there is a DTC book-entry system in effect for the Bonds, the notice required pursuant to this Section 2.09(d) shall specify that, in lieu of surrendering the Bonds, the beneficial ownership interests to receive payment of such principal or interest shall be transferred on the records of DTC to the order of the Insurance Trustee.

(e) In the event that the Trustee or Paying Agent has notice that any payment of principal of or interest on a Bond which has become Due for Payment and which is made to an Owner by or on behalf of the Issuer has been deemed a preferential transfer and theretofore recovered from such Owner pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with the final, nonappealable order of a court having competent jurisdiction, the Trustee or Paying Agent shall, within five days after it has notice that such payment has been deemed a preferential transfer, notify all Owners that in the event that any Owner's payment is so recovered, such Owner will be entitled to payment from the Insurer to the extent of such recovery if sufficient funds are not otherwise available, and the Paying Agent shall furnish to the Insurer its records evidencing the payments of principal of and interest on the Bonds which have been made by the Paying Agent and subsequently recovered from Owners and the dates on which such payments were made.

(f) In addition to those rights granted the Insurer under this Indenture, the Insurer shall, to the extent it makes payment of principal of or interest on the Bonds, become subrogated to the rights of the recipients of such payments in accordance with the terms of the Insurance Policy, and to evidence such subrogation (i) in the case of subrogation as to claims for past due interest, the Registrar shall note the Insurer's rights as subrogee on the registration books of the Issuer maintained by the Registrar upon receipt from the Insurer of proof of the payment of interest thereon to the Owners, and (ii) in the case of subrogation as to claims for past due principal, the Registrar shall note the Insurer's rights as subrogee on the registration books of the Issuer maintained by the Registrar upon surrender of the Bonds by the Owners thereof, together with proof of the payment of principal thereof.

Section 2.10. Book-Entry System. (a) Unless otherwise determined by the Issuer, the Bonds shall be issued in the form of a separate single certificated fully registered Bond, registered in the name of Cede & Co., as nominee of DTC, or any successor nominee (the "Nominee"). The actual owners of the Bonds (the "Beneficial Owners") will not receive physical delivery of Bond certificates except as provided herein. Except as provided in paragraph (d) below, all of the outstanding Bonds shall be so registered in the registration books kept by the Registrar, and the provisions of this Section 2.10 shall apply thereto.

(b) With respect to Bonds registered on the registration books kept by the Registrar in the name of the Nominee, the Issuer, the Company, the Paying Agent and the Trustee shall have no responsibility or obligation to any DTC Participant or the Beneficial Owners. Without limiting the immediately preceding sentence, the Issuer, the Company, the Paying Agent and the Trustee shall have no responsibility or obligation to DTC, any DTC Participant or any Beneficial Owner with respect to (1) the accuracy of the records of DTC, the Nominee or any DTC Participant with respect to any ownership interest in the Bonds, (2) the delivery by DTC or any DTC Participant of any notice with respect to the Bonds, including any notice of redemption, or (3) the payment to any DTC Participant or Beneficial Owner of any amount with respect to principal of, or premium, if any, or interest on, the Bonds. The Issuer, the Company, the Paying Agent and the Trustee may treat and consider the person in whose name each Bond is registered in the registration books kept by the Registrar as the holder and absolute owner of such Bond for the purpose of payment of principal, purchase price, premium and interest with respect to such Bond, for the purpose of giving notices of redemption and other matters with respect to such Bond, for the purpose of registering transfers with respect to such Bond, and for all other purposes whatsoever. The Paying Agent shall pay all principal of, and premium, if any, and interest on, the Bonds only to or upon the order of the respective Owners, as shown in the registration books kept by the Registrar, or their respective attorneys duly authorized in writing, and all such payments shall be valid and effective to fully satisfy and discharge the Issuer's obligations with respect to payment of principal of, and premium, if any, and interest on, the Bonds to the extent of the sum or sums so paid. No person other than an Owner, as shown in the registration books kept by the Registrar, shall receive a certificated Bond evidencing the obligation of the Issuer to make payments of principal, premium, if any, and interest pursuant to this Indenture.

(c) The Issuer, the Paying Agent, the Remarketing Agent and the Trustee shall execute and deliver to DTC a letter of representations in customary form with respect to the Bonds in book-entry form (the "*DTC Representation Letter*"), but such DTC Representation Letter shall not in any way limit the provisions of the foregoing paragraph (b) or in any other way impose upon the Issuer any obligation whatsoever with respect to persons having interests in the Bonds other than the Owners, as shown on the registration books kept by the Registrar. The Trustee, the Remarketing Agent and the Paying Agent shall take all action necessary for all representations of the Issuer in the DTC Representation Letter with respect to the Trustee, the Remarketing Agent and the Paying Agent to be complied with at all times, including but not limited to, the giving of all notices required under the DTC Representation Letter.

(d) DTC may determine to discontinue providing its services with respect to the Bonds at any time by giving reasonable notice to the Issuer or the Trustee and discharging its responsibilities with respect thereto under applicable law. The Issuer, with the consent of the Company, may terminate the services of DTC with respect to the Bonds. Upon the discontinuance or termination of the services of DTC with respect to the Bonds, unless a substitute securities depository is appointed to undertake the functions of DTC hereunder, the Issuer, at the expense of the Company, is obligated to deliver Bond certificates to the Beneficial Owners of such Bonds, as described in this Indenture, and such Bonds shall no longer be restricted to being registered in the registration books kept by the Registrar in the

name of the Nominee, but may be registered in whatever name or names Owners transferring or exchanging Bonds shall designate, in accordance with the provisions of this Indenture.

(e) Notwithstanding any other provision of this Indenture to the contrary, so long as any Bond is registered in the name of the Nominee, all payments with respect to principal of or, premium, if any, and interest on such Bond and all notices with respect to such Bond shall be made and given, respectively, in the manner provided in the DTC Representation Letter. Owners shall have no lien or security interest in any rebate or refund paid by DTC to the Paying Agent which arises from the payment by the Paying Agent of principal of, or premium, if any, or interest on, the Bonds in immediately available funds to DTC.

(f) So long as any Bond is held in book-entry form, a Beneficial Owner (through its DTC Participant) shall give notice to the Trustee to elect to have its Bonds purchased, and shall effect delivery of such Bonds by causing such DTC Participant to transfer its interest in the Bonds equal to such Beneficial Owner's interest on the records of DTC to the Trustee's participant account with DTC. The requirement for physical delivery of the Bonds in connection with any purchase pursuant to Section 3.01 and Section 3.02 hereof shall be deemed satisfied when the ownership rights in the Bonds are transferred by DTC Participants on the records of DTC.

(g) The provisions of this Section 2.10 are not intended to modify the obligations of the Company to any Bank or any Obligor on an Alternate Liquidity Facility under the Liquidity Agreement or the obligation of the Company to make payments of interest on Unremarketed Bonds directly to the Agent Bank (or the Agent Obligor on an Alternate Liquidity Facility, as the case may be) under the Liquidity Agreement pursuant to Section 2.02(i) hereof.

ARTICLE III

PURCHASE AND REMARKETING OF BONDS

Section 3.01. Owner's Option to Tender for Purchase. (a) During any Daily Interest Rate Period, any Bond or portion thereof in an Authorized Denomination shall be purchased at the option of the owner thereof on any Business Day at a purchase price equal to 100% of the principal amount thereof plus accrued interest from the Interest Payment Date next preceding the date of purchase to the date of purchase (unless the date of purchase shall be an Interest Payment Date, in which case the purchase price shall be equal to the principal amount thereof), upon (i) delivery to the Trustee at the Delivery Office of the Trustee, by no later than 11:00 a.m., New York time, on such Business Day, of an irrevocable written notice or an irrevocable notice by telephone, which states the principal amount and certificate number (if the Bonds are not then held in book-entry form) of such Bond and the date on which the same shall be purchased, and (ii) subject to Section 2.10(f) hereof, delivery of such Bond tendered for purchase to the Trustee at the Delivery Office of the Trustee, accompanied by an instrument of transfer thereof in a form satisfactory to the Trustee, executed in blank by the Owner thereof with the signature of such Owner guaranteed by a bank, trust company or member firm of the New York Stock Exchange, Inc. at or prior to 1:00 p.m., New York time,

on the purchase date. The Trustee shall keep a written record of each notice described in clause (i) above.

(b) During any Weekly Interest Rate Period, any Bond or portion thereof in an Authorized Denomination shall be purchased at the option of the owner thereof on any Wednesday, or if such Wednesday is not a Business Day, the next succeeding Business Day, at a purchase price equal to 100% of the principal amount thereof plus accrued interest from the Interest Payment Date next preceding the date of purchase to the date of purchase (unless the date of purchase shall be an Interest Payment Date, in which case the purchase price shall be equal to the principal amount thereof), upon (i) delivery to the Trustee at the Delivery Office of the Trustee of an irrevocable written notice or an irrevocable notice by telephone (promptly confirmed by telecopy or other writing), by 5:00 p.m., New York time, on any Business Day, which states the principal amount of such Bond and the certificate number (if the Bonds are not then held in book-entry form) and the date on which the same shall be purchased, which date shall not be prior to the seventh day next succeeding the date of the delivery of such notice to the Trustee, and (ii) subject to Section 2.10(f) hereof, delivery of such Bond to the Trustee at the Delivery Office of the Trustee, accompanied by an instrument of transfer thereof in a form satisfactory to the Trustee, executed in blank by the Owner thereof with the signature of such Owner guaranteed by a bank, trust company or member firm of the New York Stock Exchange, Inc., at or prior to 1:00 p.m., New York time, on the purchase date. The Trustee shall keep a written record of each notice described in clause (i) above.

(c) Any Bond or portion thereof in an Authorized Denomination shall be purchased at the option of the owner thereof on the first day of any Term Interest Rate Period which is preceded by a Term Interest Rate Period of equal duration at a purchase price equal to (i) if the Bond is purchased on or prior to the Record Date, 100% of the principal amount thereof plus accrued interest from the Interest Payment Date next preceding the date of purchase to the date of purchase (unless the date of purchase shall be an Interest Payment Date, in which case the purchase price shall be equal to the principal amount thereof) or (ii) if the Bond is purchased after the Record Date, 100% of the principal amount thereof, upon (x) delivery to the Trustee at the Delivery Office of the Trustee of an irrevocable notice in writing by 5:00 p.m., New York time, on any Business Day not less than fifteen days before the purchase date, which states the principal amount and certificate number (if the Bonds are not then held in book-entry form) of such Bond to be purchased, and (y) subject to Section 2.10(f) hereof, delivery of such Bond to the Trustee at the Delivery Office of the Trustee, accompanied by an instrument of transfer thereof in a form satisfactory to the Trustee, executed in blank by the Owner thereof with the signature of such Owner guaranteed by a bank, trust company or member firm of the New York Stock Exchange, Inc., at or prior to 1:00 p.m. New York time, on the purchase date. The Trustee shall keep a written record of each notice described in clause (x) above.

(d) If any Bond is to be purchased in part pursuant to Section 3.01(a), Section 3.01(b) or Section 3.01(c) hereof, the amount so purchased and the amount not so purchased must each be an Authorized Denomination.

Section 3.02. Mandatory Purchase (a) Bonds shall be subject to mandatory purchase at a purchase price equal to 100% of the principal amount thereof, plus accrued interest to the purchase date described below, upon the occurrence of any of the events stated below:

(i) as to any Bond, on the effective date of any change in a Rate Period, other than the effective date of a Term Interest Rate Period which was preceded by a Term Interest Rate Period of the same duration;

(ii) as to each Bond in a Flexible Interest Rate Period, on the day next succeeding the last day of any Flexible Segment with respect to such Bond; or

(iii) as to all of the Bonds, on the Business Day preceding an Expiration of the term of the Standby Purchase Agreement described in clause (i) of the definition of "*Expiration of the Term of the Standby Purchase Agreement*" or an Expiration of the term of an Alternate Liquidity Facility described in clause (i) of the definition of "*Expiration of the term of an Alternate Liquidity Facility*" (in each case, as used in this Section 3.02, a "Clause (i) Expiration") unless (A) the Company has delivered to the Trustee at least twenty (20) days prior to a scheduled Clause (i) Expiration the written evidence with respect to the ratings of the Bonds required by Section 4.03(a)(3)(i) of the Agreement and, if an Alternate Liquidity Facility is being provided in substitution for the Standby Purchase Agreement (or Alternate Liquidity Facility, as the case may be) then in effect, the Trustee received delivery of the Alternate Liquidity Facility to be in effect at least twenty (20) days prior to a scheduled Clause (i) Expiration or (B) each Bank or each Obligor on an Alternate Liquidity Facility, as the case may be, has no obligation to provide moneys on such Business Day to purchase Bonds under the terms of the Standby Purchase Agreement or the Alternate Liquidity Facility, as the case may be.

(b) When Bonds are subject to redemption pursuant to Section 4.02(b)(iii) hereof, the Bonds are also subject to mandatory purchase on a day that the Bonds would be subject to redemption, at a purchase price equal to 100% the principal amount thereof plus an amount equal to any premium which would have been payable on such redemption date had the Bonds been redeemed if the Company gives notice to the Trustee on the day prior to the redemption date that it elects to have the Bonds purchased in lieu of redemption. If the Bonds are purchased on or prior to the Record Date, the purchase price shall include accrued interest from the Interest Payment Date next preceding the date of purchase to the date of purchase (unless the date of purchase shall be an Interest Payment Date, in which case the purchase price shall be equal to the amount specified in the preceding sentence). If the Bonds are purchased after the Record Date, the purchase price shall not include accrued interest.

(c) If the Bonds are subject to mandatory purchase pursuant to the provisions of Section 3.02(a)(iii) hereof, the Trustee shall give notice by Mail to the Remarketing Agent and to the Owners of the Bonds at their addresses shown on the registration books kept by the Registrar, not less than fifteen days prior to a Clause (i) Expiration, which notice shall (i) describe generally any Standby Purchase Agreement or any Alternate Liquidity Facility in effect prior to a Clause (i) Expiration; (ii) state whether or not any Substitute Standby

Purchase Agreement or Alternate Liquidity Facility will be delivered in connection with such Clause (i) Expiration; (iii) if any Substitute Standby Purchase Agreement or Alternate Liquidity Facility is to be delivered in connection with a Clause (i) Expiration, describe generally the Substitute Standby Purchase Agreement or Alternate Liquidity Facility to be in effect and state the name of the provider thereof; (iv) state the date of the Clause (i) Expiration; (v) state the rating or ratings, if any, which the Bonds are expected to receive from any rating agency following the Clause (i) Expiration; (vi) state that the Bonds are subject to mandatory purchase; (vii) state the purchase date; and (viii) state that the Bonds must be delivered to the Delivery Office of the Trustee subject to Section 2.10 hereof.

Section 3.03. Payment of Purchase Price. If Bonds are to be purchased pursuant to Section 3.01 or Section 3.02, the Trustee shall pay the purchase price of such Bonds but solely from the following sources in the order of priority indicated, and the Trustee shall not have any obligation to use funds from any other source:

(a) moneys which constitute Available Moneys and are furnished by the Company to the Trustee pursuant to Section 8.02 of the Agreement for purchase of Bonds;

(b) proceeds of the sale of such Bonds (other than Bonds sold to the Company, any subsidiary of the Company, or the Issuer or any "insider" (as defined in the United States Bankruptcy Code) of any of the aforementioned) pursuant to Section 3.04 hereof;

(c) moneys (which constitute Available Moneys or moneys provided pursuant to the Standby Purchase Agreement or an Alternate Liquidity Facility, as the case may be for the payment of the purchase price of the Bonds) furnished by the Trustee pursuant to Article VIII hereof, such moneys to be applied only to the purchase of Bonds which are deemed to be paid in accordance with Article VIII hereof;

(d) moneys furnished to the Trustee representing moneys provided pursuant to the Standby Purchase Agreement (or an Alternate Liquidity Facility, as the case may be) for the payment of the purchase price of the Bonds; and

(e) any other moneys furnished by the Company to the Trustee for purchase of the Bonds;

provided, however, that funds for the payment of the purchase price of Bonds which are deemed to be paid in accordance with Article VIII hereof shall be derived only from the sources described in Section 3.03(b) and Section 3.03(c), in such order of priority.

The Registrar shall register new Bonds as directed by the Remarketing Agent and make such Bonds available for delivery on the date of such purchase. Payment of the purchase price of any Bond shall be made in immediately available funds for Bonds in Flexible, Daily or Weekly Interest Rate Periods, and in clearinghouse funds for Bonds in Term Interest Rate Periods, but (subject to Section 2.10(f) hereof) in each case only upon presentation and surrender of such Bond to the Trustee.

If moneys sufficient to pay the purchase price of Bonds to be purchased pursuant to Section 3.01 or Section 3.02 hereof shall be held by the Trustee on the date such Bonds are to be purchased, such Bonds shall be deemed to have been purchased and shall be purchased according to the terms hereof, for all purposes of this Indenture, irrespective of whether or not such Bonds shall have been delivered to the Trustee, and the former Owner of such Bonds shall have no claim thereon, under this Indenture or otherwise, for any amount other than the purchase price thereof.

Section 3.04. Remarketing of Bonds by Remarketing Agent. (a) Whenever any Bonds are subject to purchase pursuant to Section 3.01 or Section 3.02 hereof, the Remarketing Agent shall offer for sale and use its best efforts to remarket such Bonds to be so purchased, any such remarketing to be made at a price equal to 100% of the principal amount thereof plus accrued interest, if any, to the purchase date. The Company may direct the Remarketing Agent from time to time to cease and to resume sales efforts with respect to some of or all of the Bonds.

(b) The Remarketing Agent shall continue its efforts to remarket any Unremarketed Bonds without any Bank or any Obligor on an Alternate Liquidity Facility having tendered such Unremarketed Bonds. Upon the remarketing of Unremarketed Bonds or Bonds held of record by or on behalf of any Bank or any Obligor on an Alternate Liquidity Facility, as the case may be, the Remarketing Agent shall immediately provide telephonic notice, promptly confirmed in writing, of such remarketing to the Company, the Trustee and the Agent Bank or the Agent Obligor on an Alternate Liquidity Facility, specifying in said notice the aggregate principal amount, the purchase price (which shall include any accrued interest), the purchase date and the purchaser thereof, and thereupon the Trustee or the Agent Bank or the Agent Obligor on an Alternate Liquidity Facility, whichever has possession of such Bonds, shall, subject to Section 3.06(a)(ii) and Section 3.06(a)(iii) hereof, immediately release such Bonds to the Trustee.

(c) If the Remarketing Agent is remarketing Bonds after the date notice has been given of the redemption of such Bonds pursuant to Section 4.02 or 4.03 hereof (and prior to the redemption date thereof), the Remarketing Agent shall provide to the Trustee the names of the Persons to whom the Bonds are being remarketed so that the Trustee can provide the notice required by Section 3.05(a) hereof.

(d) By 11:30 a.m., New York time, on the date the Trustee receives notice from any Owner in accordance with Section 3.01(a) hereof, and promptly, but in no event later than 11:30 a.m., New York time, on the Business Day following the day on which the Trustee receives notice from any Owner of its demand to have the Trustee purchase Bonds pursuant to Section 3.01(b) or Section 3.01(c) hereof, the Trustee shall give facsimile or telephonic notice, confirmed in writing thereafter, to the Remarketing Agent specifying the principal amount of Bonds which such Owner has demanded to have purchased and the date on which such Bonds are demanded to be purchased.

Section 3.05. Limit on Remarketing. (a) Any Bond purchased pursuant to Sections 3.01 and 3.02 hereof from the date notice is given of redemption pursuant to Sections 4.02 and

4.03 hereof through the date of such redemption shall not be remarketed unless the Person buying such Bonds has been given notice in writing by the Trustee that such Bonds are to be redeemed. Furthermore, in addition to the requirements of the preceding sentence, if the Bonds are subject to redemption pursuant to Section 4.03(b) hereof, the Person buying such Bonds shall also be given notice in writing by the Trustee that a Determination of Taxability has occurred and that such Bonds are subject to mandatory redemption pursuant to Section 4.03(b) hereof.

(b) Bonds purchased pursuant to Sections 3.01 and 3.02 hereof shall not be redeemed but shall remain Outstanding and shall be remarketed by the Remarketing Agent or its successor.

(c) During the term of any Standby Purchase Agreement or an Alternate Liquidity Facility, Bonds to be purchased pursuant to Sections 3.01 and 3.02 hereof shall not be remarketed to the Company or any of its subsidiaries or the Issuer or any "insider", as defined in the United States Bankruptcy Code, of any of the aforementioned, unless prior to such sale, the Company shall have delivered to Moody's (if the Bonds are then rated by Moody's), and the Trustee an unqualified written opinion of counsel experienced in bankruptcy matters and satisfactory to Moody's (if the Bonds are then rated by Moody's), and the Trustee to the effect that such purchase would not result in a preferential payment pursuant to the provisions of Section 547 of the United States Bankruptcy Code, 11 U.S.C. §101 *et seq.* The Trustee shall not be required to monitor the actions of the Remarketing Agent to ensure that it will not remarket any Bonds to the Company, any subsidiary of the Company, or the Issuer, and for the purposes of Section 3.03(b) hereof, the Trustee may, in the absence of actual notice to the contrary, assume that no funds furnished to the Trustee by the Remarketing Agent constitute proceeds of the remarketing of any Bonds to the Company, any subsidiary of the Company, or the Issuer. The provisions of this Section 3.05 shall not be construed as limiting the obligation of the Company to provide moneys for the payment of the purchase price of the Bonds in accordance with the provisions of Section 4.02 of the Agreement.

Section 3.06. Delivery of Bonds; Delivery of Proceeds of Sale; Payments From Standby Purchase Agreement or Alternate Liquidity Facility.

(a) DELIVERY OF BONDS. Bonds purchased pursuant to Section 3.01 or Section 3.02 hereof shall be delivered as follows:

(i) *Delivery of Remarketed Bonds.* Subject to Section 2.10 hereof, Bonds remarketed by the Remarketing Agent pursuant to Section 3.04 hereof shall be delivered by the Trustee to the purchasers thereof; *provided, however*, no Bonds shall be delivered to any Person until it shall have paid the purchase price therefor.

(ii) *Delivery of Unremarketed Bonds.* Bonds delivered to the Trustee and purchased with moneys provided pursuant to the Standby Purchase Agreement or Alternate Liquidity Facility, as the case may be, shall constitute Unremarketed Bonds, and shall be delivered by the Trustee to or at the direction of the Agent Bank or Agent Obligor on an Alternate Liquidity Facility, as the case may be, as provided in the

Liquidity Agreement. Notwithstanding anything herein to the contrary, if the Trustee holds Unremarketed Bonds as agent of the Bank or the Obligor on an Alternate Liquidity Facility, as the case may be, pursuant to the Liquidity Agreement, the Trustee shall not release to the purchaser thereof or to the Remarketing Agent Unremarketed Bonds remarketed pursuant to Section 3.04(b) hereof unless the Trustee shall have received written notice (which may be given by telecopy) from the Agent Bank or Agent Obligor on an Alternate Liquidity Facility, as the case may be, that it has received a certificate authorizing the release of such Unremarketed Bonds and stating that the commitment of each Bank (or each Obligor on the Alternate Liquidity Facility, as the case may be) to purchase Bonds has been increased to cover the principal of and interest on the Unremarketed Bonds to be released (such interest being computed on the basis of the then-existing Interest Coverage Rate on the then-existing Interest Coverage Period).

(iii) *Delivery of Bonds Purchased by the Company.* Bonds delivered to the Trustee and purchased with moneys furnished by the Company shall, at the direction of the Company, be (A) held by the Trustee for the account of the Company, (B) delivered to the Trustee for cancellation or (C) delivered to the Company.

(iv) *Delivery of Defeased Bonds.* Bonds purchased by the Remarketing Agent with moneys described in Section 3.03(c) hereof shall not be remarketed and shall be delivered to the Trustee for cancellation.

(b) **REGISTRATION OF DELIVERED BONDS.** Bonds delivered as provided in this Section 3.06 shall be registered in the manner directed by the recipient thereof.

(c) **NOTICE OF FAILED REMARKETING.** In the event that any Bonds are not remarketed, the Remarketing Agent shall inform the Trustee in writing (which may be delivered by telecopy) no later than 12:00 noon, New York, New York time, on any day on which Bonds are delivered or deemed delivered for purchase under this Indenture, of the aggregate principal amount of Bonds not remarketed on such date and the aggregate principal amount of Bonds remarketed on such date but for which the purchase price has not been paid (which Bonds for purposes of this Indenture shall be considered to not be remarketed). After the receipt of such notice or if the Trustee has not received such notice by such time, the Trustee shall, by 12:30 p.m., New York, New York time, on the purchase date, take the action specified in the Standby Purchase Agreement or an Alternate Liquidity Facility, as the case may be, to the extent necessary, after taking into account moneys referred to in Section 3.03(a), Section 3.03(b) and Section 3.03(c) hereof, as the case may be, to receive the moneys required to pay the purchase price of such Bonds. In the event that the commitment of each Bank (or each Obligor on an Alternate Liquidity Facility, as the case may be) to provide moneys to pay the purchase price of Bonds is suspended, the Trustee shall on the day that any such suspension is lifted, take the action specified in the Standby Purchase Agreement (or an Alternate Liquidity Facility, as the case may be) to make moneys available to pay the purchase price of Bonds that were tendered for purchase and were not purchased during such period of suspension.

(d) **PROCEEDS OF SALE HELD FOR SELLER OF BONDS.** Moneys deposited with the Trustee for the purchase of Bonds pursuant to Section 3.01 and Section 3.02 hereof shall be held uninvested in trust in one or more separate accounts and shall be paid to the former Owners of such Bonds upon presentation thereof. The Trustee shall notify the Company in writing within five days after the date of purchase if the Bonds have not been delivered, and if so directed by the Company, shall give notice by Mail to each Owner whose Bonds are deemed to have been purchased pursuant to Section 3.01 and Section 3.02 hereof stating that interest on such Bonds ceased to accrue on the date of purchase and that moneys representing the purchase price of such Bonds are available against delivery thereof at the Delivery Office of the Trustee. Bonds deemed purchased pursuant to Section 3.01 and Section 3.02 hereof shall cease to accrue interest on the date of purchase. The Trustee shall hold moneys deposited for the purchase of Bonds without liability for interest thereon, for the benefit of the former Owner of the Bond on such date of purchase, who shall thereafter be restricted exclusively to such moneys for any claim of whatever nature on its part under this Indenture or on, or with respect to, such Bond. Any moneys so deposited with and held by the Trustee not so applied to the payment of Bonds within six months after such date of purchase shall be paid by the Trustee to the Company upon the written direction of the Authorized Company Representative, and thereafter the former Owners shall be entitled to look only to the Company for payment, and then only to the extent of the amount so repaid to the Company, and the Company shall not be liable for any interest thereon and shall not be regarded as a trustee of such money.

Section 3.07. No Remarketing Sales After Certain Events. Anything in this Indenture to the contrary notwithstanding, at any time during which the Standby Purchase Agreement or an Alternate Liquidity Facility, as the case may be, is in effect, there shall be no sales of Bonds pursuant to a remarketing in accordance with Section 3.04 hereof, if (a) there shall have occurred and not have been cured or waived an Event of Default described in Section 9.01(a), Section 9.01(b) or Section 9.01(c) hereof of which an authorized officer in the Principal Office of the Remarketing Agent and an authorized officer of the Trustee have actual knowledge or (b) the Bonds have been declared to be immediately due and payable pursuant to Section 9.02 hereof and such declaration has not been rescinded pursuant to Section 9.02(d) hereof.

ARTICLE IV

REDEMPTION OF BONDS

Section 4.01. Redemption of Bonds Generally. The Bonds are subject to redemption if and to the extent the Company is entitled or required to make and makes a prepayment pursuant to Article VIII of the Agreement. Except as specifically provided in Section 4.03(e) hereof, the Trustee shall not give notice of any redemption under Section 4.05 hereof unless the Company has so directed in accordance with Section 8.01 of the Agreement; *provided* that the Trustee may require prepayment of Loan Payments under Section 4.01 of the Agreement in the case of mandatory redemption.

Section 4.02. Redemption upon Optional Prepayment. (a) The Bonds shall be redeemed in whole or in part, and if in part by lot, at any time at a redemption price equal to

100% of the principal amount thereof plus accrued interest to the redemption date upon receipt by the Trustee of a written notice from the Company stating that any of the following events has occurred and that the Company therefore intends to exercise its option to prepay the payments due under the Agreement in whole or in part pursuant to Section 8.01 of the Agreement and thereby effect the redemption of Bonds in whole or in part to the extent of such prepayments:

(i) the Company shall have determined that the continued operation of the Plant is impracticable, uneconomical or undesirable for any reason; or

(ii) the Company shall have determined that the continued operation of the Project is impracticable, uneconomical or undesirable due to (A) the imposition of taxes, other than ad valorem taxes currently levied upon privately owned property used for the same general purpose as the Project, or other liabilities or burdens with respect to the Project or the operation thereof, (B) changes in technology, in environmental standards or legal requirements or in the economic availability of materials, supplies, equipment or labor or (C) destruction of or damage to all or part of the Project; or

(iii) all or substantially all of the Project or the Plant shall have been condemned or taken by eminent domain; or

(iv) the operation of the Project or the Plant shall have been enjoined or shall have otherwise been prohibited by, or shall conflict with, any order, decree, rule or regulation of any court or of any federal, state or local regulatory body, administrative agency or other governmental body.

(b) The Bonds shall be subject to redemption upon prepayment of the Loan Payments at the option of the Company, in whole, or in part by lot, prior to their maturity dates, as follows:

(i) While the Bonds bear interest at a Flexible Interest Rate or Rates, each Bond shall be subject to such redemption on the day next succeeding the last day of each Flexible Segment for such Bond at a redemption price equal to 100% of the principal amount thereof.

(ii) While the Bonds bear interest at a Daily Interest Rate or a Weekly Interest Rate, the Bonds shall be subject to such redemption on any Business Day at a redemption price equal to 100% of the principal amount thereof, plus accrued interest, if any, to the date of redemption.

(iii) While the Bonds bear interest at a Term Interest Rate and on the day next succeeding the last day of each Term Interest Rate Period, the Bonds shall be subject to such redemption during the Term Interest Rate Periods specified below (or during the Term Interest Rate Periods specified in the notice required by the last paragraph of Section 2.02(d)(ii) hereof pursuant to the provisions of Section 4.02(c) hereof), in whole

or in part at any time, at the redemption prices (expressed as percentages of principal amount) hereinafter indicated plus accrued interest, if any, to the redemption date:

<u>LENGTH OF TERM INTEREST RATE PERIOD</u>	<u>REDEMPTION DATES AND PRICES</u>
Greater than 13 years	At any time on or after the 10th anniversary of the effective date of the Term Interest Rate Period at 102% declining 1% annually to 100%
Greater than 10 and less than or equal to 13 years	At any time on or after the 5th anniversary of the effective date of the Term Interest Rate Period at 102% declining 1% annually to 100%
Greater than 7 and less than or equal to 10 years	At any time on or after the 3rd anniversary of the effective date of the Term Interest Rate Period at 102% declining 1% annually to 100%
Greater than 4 and less than or equal to 7 years	At any time on or after the 2nd anniversary of the effective date of the Term Interest Rate Period at 101% declining 1/2% annually to 100%
Greater than 2 and less than or equal to 4 years	At any time on or after the 2nd anniversary of the effective date of the Term Interest Rate Period at 101% declining 1/2% each six months thereafter to 100%
Greater than 1 and less than or equal to 2 years	At any time on or after the 1st anniversary of the effective date of the Term Interest Rate Period at 100-1/2% declining 1/2% six months thereafter to 100%
Less than or equal to 1 year	Not redeemable.

(c) With respect to any Term Interest Rate Period, the Company may specify in the notice required by Section 2.02(d)(ii) hereof redemption provisions, prices and periods other than those set forth above; *provided, however*, that such notice shall be accompanied by an opinion of Bond Counsel to the effect that such changes (i) are authorized or permitted by the Act and this Indenture, and (ii) will not adversely affect the Tax-Exempt status of the Bonds.

Section 4.03. Redemption upon Mandatory Prepayment. (a) The Bonds shall be subject to mandatory redemption as herein provided upon the occurrence of the events specified below in this Section 4.03.

(b) The Bonds shall be redeemed in whole on any date from amounts which are to be prepaid by the Company under Section 8.03 of the Agreement, at a redemption price equal to 100% of the principal amount thereof plus interest accrued to the redemption date within one hundred eighty (180) days following a Determination of Taxability; *provided* that if, in the opinion of Bond Counsel delivered to the Trustee, the redemption of a specified portion of the Bonds outstanding would have the result that interest payable on the Bonds remaining outstanding after such redemption would remain Tax-Exempt, then the Bonds shall be redeemed in part by lot (in Authorized Denominations), in such amount as Bond Counsel in such opinion shall have determined is necessary to accomplish that result.

(c) Any Unremarketed Bonds that were purchased on any date (the "*Purchase Date*") pursuant to Section 3.01 or Section 3.02 hereof shall be redeemed at a redemption price equal to the principal amount of such Unremarketed Bonds plus accrued and unpaid interest thereon to the redemption date if such Unremarketed Bonds are not remarketed prior to the earlier of (i) the date occurring twelve months after the Purchase Date or (ii) the Expiration of the term of the Standby Purchase Agreement or the Expiration of the term of an Alternate Liquidity Facility, as the case may be (the "*Term-Out Date*"). One-tenth of the principal amount of the Unremarketed Bonds purchased on such Purchase Date and not remarketed on or before the Term-Out Date (the "*Principal Amount*") shall be redeemed in ten equal consecutive semi-annual installments commencing on the date falling six months after such Term-Out Date; *provided, however*, that the Remarketing Agent shall, subject to Section 3.07 hereof, continue its efforts on and after the Term-Out Date to remarket all of such Unremarketed Bonds until they are so redeemed. For purposes of determining which Unremarketed Bonds have been remarketed on any date, it shall be assumed that Unremarketed Bonds purchased on each of the Purchase Dates that occurred prior to such date have been remarketed on a *pro rata* basis (determined by reference to the respective principal amounts of such Unremarketed Bonds on such date) and, if less than all of the Unremarketed Bonds purchased on any Purchase Date are remarketed on a date that is after the Term-Out Date with respect to such Unremarketed Bonds, the then remaining installments payable with respect to such Unremarketed Bonds which were not remarketed on such date (including any installment due and payable on such date) shall be ratably reduced by an aggregate amount equal to the aggregate principal amount of such Unremarketed Bonds which were remarketed on such date.

(d) If the Trustee receives notice from any Bank or any Obligor on an Alternate Liquidity Facility (the "*Notifying Party*") that an Insurer Default has occurred, all Unremarketed Bonds shall be redeemed on the date falling ninety (90) days after the date the Trustee receives such notice of an Insurer Default at a redemption price equal to 100% of the principal amount of such Unremarketed Bonds plus accrued and unpaid interest thereon to the redemption date; *provided, however*, that such Unremarketed Bonds shall not be so redeemed if the Trustee shall have received notice prior to such redemption date from the Notifying Party that (i) such Insurer Default has been waived by the Notifying Party, (ii) such Insurer

Default has been cured, or (iii) the Insurer has been replaced or an additional Insurer has been provided under the circumstances contemplated by Section 12.01(q) hereof. The Trustee shall promptly provide a copy of any notice received hereunder to the Owners of the Bonds and to the Remarketing Agent.

(e) The Trustee shall effect any redemptions of Unremarketed Bonds required by Section 4.03(c) and Section 4.03(d) hereof without any further authorization of or direction from the Issuer or the Company, *provided, however*, that the Trustee shall provide written notice of such redemption on the date thereof to the Company, the Insurer, the Issuer, the Remarketing Agent and the Agent Bank or the Agent Obligor on an Alternate Liquidity Facility, as the case may be, that provided moneys for the purchase of such Unremarketed Bonds. No further notice of redemption shall be required and the provisions of Section 4.05 shall not apply to the redemption of Unremarketed Bonds pursuant to Section 4.03(c) and Section 4.03(d) hereof.

(f) Except as otherwise provided in Section 4.03(c) and Section 4.03(d) hereof for the redemption of Unremarketed Bonds, the Trustee shall give notice of any redemption made pursuant to Section 4.02 or Section 4.03 hereof as provided in Section 4.05 hereof.

Section 4.04. Selection of Bonds for Redemption. If less than all of the Bonds (other than Unremarketed Bonds redeemed pursuant to Section 4.03(c) and Section 4.03(d) hereof) are called for redemption the Trustee shall select the Bonds or any given portion thereof to be redeemed, from the outstanding Bonds or such given portion thereof not previously called for redemption, by lot. For the purpose of any such selection the Trustee shall assign a separate number for each minimum Authorized Denomination of each Bond of a denomination of more than such minimum; *provided that*, following any such selection, both the portion of such Bond to be redeemed and the portion remaining shall be in Authorized Denominations. The Trustee shall promptly notify the Issuer and the Company in writing of the numbers of the Bonds or portions thereof so selected for redemption.

Section 4.05. Notice of Redemption. (a) The Trustee, for and on behalf of the Issuer, shall give notice of any redemption by Mail, postage prepaid, not less than thirty (30) nor more than sixty (60) days prior to the redemption date, to (i) the Owner of such Bond at the address shown on the registration books of the Registrar on the date such notice is mailed; (ii) the Remarketing Agent, (iii) the Insurer; (iv) the Agent Bank or the Agent Obligor on an Alternate Liquidity Facility, as the case may be; (v) Moody's; (vi) S&P; (vii) the Securities Depositories; (viii) one or more Information Services; and (ix) the Company Mortgage Trustee. Notice of redemption shall also be given to DTC in accordance with the DTC Representation Letter. Notice of redemption to the Securities Depositories and the Information Services shall be given by registered mail. Each notice of redemption shall state the date of such notice, the date of issue of the Bonds to be redeemed, the redemption date, the redemption price, the place of redemption (including the name and appropriate address or addresses of the Paying Agent), the source of the funds to be used for such redemption, the principal amount, the CUSIP number (if any) of the maturity and, if less than all, the distinctive certificate numbers of the Bonds to be redeemed and, in the case of Bonds to be redeemed in part only, the respective portions of the principal amount thereof to be redeemed.

Each such notice shall also state that the interest on the Bonds designated for redemption shall cease to accrue from and after such redemption date and that on said date there will become due and payable on each of said Bonds the principal amount thereof to be redeemed, interest accrued thereon, if any, to the redemption date and the premium, if any, thereon (such premium to be specified) and shall require that such Bonds be then surrendered at the address or addresses of the Paying Agent specified in the redemption notice. Notwithstanding the foregoing, failure by the Trustee to give notice pursuant to this Section 4.05 to the Company Mortgage Trustee, the Insurer or to any one or more of the Information Services or Securities Depositories or the insufficiency of any such notices shall not affect the sufficiency of the proceedings for redemption. Failure to mail the notices required by this Section 4.05 to any Owner of any Bonds designated for redemption, the Insurer or the Company Mortgage Trustee or any Securities Depository or Information Service, or any defect in any notice so mailed, shall not affect the validity of the proceedings for redemption of any Bonds and shall not extend the period for making elections or in any way change the rights of the holders of the Bonds to elect to have their Bonds purchased as provided herein.

(b) With respect to any notice of redemption of Bonds in accordance with Section 4.02 hereof, unless, upon the giving of such notice, such Bonds shall be deemed to have been paid within the meaning of Article VIII hereof, such notice shall state that such redemption shall be conditional upon the receipt by the Trustee on or prior to the date fixed for such redemption of Available Moneys sufficient to pay the principal of, and premium, if any, and interest on, such Bonds to be redeemed. In the event such Available Moneys are not so received, the redemption shall not be made and the Trustee shall within a reasonable time thereafter give notice, in the manner in which the notice of redemption was given, that such redemption will not take place.

(c) The Trustee shall also provide the notices with respect to Bonds to be redeemed as required by Section 3.05(a) hereof.

Section 4.06. Partial Redemption of Bonds. Upon surrender of any Bond redeemed in part only, the Registrar shall exchange the Bond redeemed for a new Bond of like tenor and in an Authorized Denomination without charge to the Owner in the principal amount of the portion of the Bond not redeemed. In the event of any partial redemption of a Bond which is registered in the name of Cede & Co., DTC may elect to make a notation on the Bond certificate which reflects the date and amount of the reduction in the principal amount of said Bond in lieu of surrendering the Bond certificate to the Registrar for exchange. The Issuer and the Trustee shall be fully released and discharged from all liability to the extent of payment of the redemption price for such partial redemption.

Section 4.07. No Partial Redemption After Default. Anything in this Indenture to the contrary notwithstanding, if there shall have occurred and be continuing an Event of Default (other than an Event of Default described in Section 9.01(d) hereof) of which an authorized officer of the Trustee has actual knowledge, there shall be no redemption of less than all of the Bonds at the time Outstanding other than a redemption pursuant to Section 4.03(c) and Section 4.03(d) hereof.

Section 4.08. Payment of Redemption Price. For the redemption of any of the Bonds, the Issuer shall cause to be deposited in the Bond Fund, solely out of the Revenues and any other moneys constituting the Trust Estate and which, if the redemption is being made pursuant to Section 4.02 hereof, constitute Available Moneys, an amount sufficient to pay the principal, premium, if any, and interest to become due on the Bonds called for redemption on the date fixed for such redemption. The obligation of the Issuer to cause any such deposit to be made hereunder shall be reduced by the amount of moneys in the Bond Fund or any fund in Article VIII hereof available for and used on such redemption date for payment of the principal of, and premium, if any, and accrued interest on, the Bonds to be redeemed. The Trustee shall apply amounts as and when required available therefor in the Bond Fund to pay principal of, and premium, if any, and interest on, the Bonds.

Section 4.09. Effect of Redemption. Notice of redemption having been duly given as aforesaid, and moneys for payment of the redemption price being held by the Trustee, the Bonds so called for redemption shall, on the redemption date designated in such notice, become due and payable at the redemption price specified in such notice, interest on the Bonds so called for redemption shall cease to accrue, said Bonds shall cease to be entitled to any lien, benefit or security under this Indenture, and the Owners of said Bonds shall have no rights in respect thereof except to receive payment of the redemption price thereof, without interest accrued on any funds held to pay such redemption price accruing after the date of redemption.

All Bonds fully redeemed pursuant to the provisions of this Article IV shall be cancelled upon surrender thereof to the Paying Agent, which shall, upon the written request of the Issuer, deliver to the Issuer a certificate evidencing such cancellation.

ARTICLE V

GENERAL COVENANTS; FIRST MORTGAGE BONDS AND INSURANCE POLICY

Section 5.01. Payment of Principal, Premium, if any, and Interest; Limited Obligations. (a) The Issuer covenants that it will promptly pay or cause to be paid the principal of, and premium, if any, and interest on, every Bond issued under this Indenture at the place, on the dates and in the manner provided herein and in the Bonds, *provided* that the principal, premium, if any, and interest are payable by the Issuer solely from the Revenues, and nothing in the Bonds or this Indenture shall be considered as assigning or pledging any other funds or assets of the Issuer other than the Trust Estate.

(b) Each and every covenant made herein by the Issuer is predicated upon the condition that the Issuer shall not in any event be liable for the payment of the principal of, or premium, if any, or interest on the Bonds, or for the payment of the purchase price of the Bonds, or the performance of any pledge, mortgage, obligation or agreement created by or arising under this Indenture or the Bonds from any property other than the Trust Estate; and, further, that neither the Bonds nor any such obligation or agreement of the Issuer shall be construed to constitute an indebtedness or a lending of credit of the Issuer within the meaning

of any constitutional or statutory provision whatsoever, or constitute or give rise to a pecuniary liability of the Issuer or a charge against its general credit or taxing power.

(c) For the payment of interest on the Bonds, the Issuer shall cause to be deposited in the Interest Account on or prior to each Interest Payment Date, solely out of Revenues and other moneys pledged therefor, an amount sufficient to pay the interest to become due on such Interest Payment Date.

(d) For payment of the principal of the Bonds upon redemption, maturity or acceleration of maturity, the Issuer shall cause to be deposited in the Principal Account, on or prior to the redemption date or the maturity date (whether accelerated or not) of the Bonds, solely out of Revenues and other moneys pledged therefor, an amount sufficient to pay the principal of the Bonds. The obligation of the Issuer to cause any such deposit to be made hereunder shall be reduced by the amount of moneys in the Principal Account available on the redemption date or the maturity date (whether accelerated or not) for the payment of the principal of the Bonds.

Section 5.02. Performance of Covenants by Issuer; Authority; Due Execution. The Issuer covenants that it will faithfully perform at all times any and all covenants, undertakings, stipulations and provisions contained in this Indenture, in any and every Bond executed, authenticated and delivered hereunder and in all of its proceedings pertaining thereto. The Issuer represents that it is duly authorized under the Constitution and laws of the State to issue the Bonds and to execute this Indenture, to execute and deliver the Agreement, to assign the Agreement and amounts payable thereunder, and to pledge the amounts hereby pledged in the manner and to the extent herein set forth. The Issuer further represents that all action on its part for the issuance of the Bonds and the execution and delivery of this Indenture has been duly and effectively taken, and that the Bonds in the hands of the Owners thereof are and will be valid and binding limited obligations of the Issuer.

The Issuer shall fully cooperate with the Trustee and with the Owners of the Bonds to the end of fully protecting the rights and security of the Owners of any Bonds.

The Issuer represents that it now has, and covenants that it shall use its best efforts to maintain, complete and lawful authority and privilege to enter into and perform its obligations under this Indenture and the Agreement, and covenants that it will at all times use its best efforts to maintain its existence or provide for the assumption of its obligations under this Indenture and the Agreement.

Except to the extent otherwise provided in this Indenture, the Issuer shall not enter into any contract or take any action by which the rights of the Trustee or the Owners of the Bonds may be impaired and shall, from time to time, execute and deliver such further instruments and take such further action as may be reasonably required to carry out the purposes of this Indenture.

Section 5.03. Immunities and Limitations of Responsibility of Issuer; Remedies. The Issuer shall be entitled to the advice of counsel (who, except as otherwise provided, may

be counsel for any Owner of Bonds), and the Issuer shall be wholly protected as to action taken or omitted in good faith in reliance on such advice. The Issuer may rely conclusively on any communication or other document furnished to it hereunder and reasonably believed by it to be genuine. The Issuer shall not be liable for any action (a) taken by it in good faith and reasonably believed by it to be within its discretion or powers hereunder, or (b) in good faith omitted to be taken by it because such action was reasonably believed to be beyond its discretion or powers hereunder, or (c) taken by it pursuant to any direction or instruction by which it is governed hereunder, or (d) omitted to be taken by it by reason of the lack of any direction or instruction required hereby for such action; nor shall it be responsible for the consequences of any error of judgment made by it in good faith. The Issuer shall in no event be liable for the application or misapplication of funds or for other acts or defaults by any person, except its own officers and employees. When any payment or consent or other action by it is called for hereby, it may defer such action pending receipt of such evidence (if any) as it may require in support thereof. The Issuer shall not be required to take any remedial action (other than the giving of notice) unless reasonable indemnity satisfactory to it is furnished for any expense or liability to be incurred thereby, other than liability for failure to meet the standards set forth in this Section 5.03. As provided herein and in the Agreement, the Issuer shall be entitled to reimbursement for its expenses reasonably incurred or advances reasonably made, with interest at a rate per annum equal to the rate of interest then in effect and as announced by the Trustee as its prime lending rate for domestic commercial loans in the city in which is located the Principal Office of the Trustee, in the exercise of its rights or the performance of its obligations hereunder, to the extent that it acts without previously obtaining indemnity. No permissive right or power to act which it may have shall be construed as a requirement to act, and no delay in the exercise of a right or power shall affect its subsequent exercise of that right or power.

Section 5.04. Defense of Issuer's Rights. The Issuer agrees that the Trustee may defend the Issuer's rights to the payments and other amounts due under the Agreement, for the benefit of the Owners of the Bonds, against the claims and demands of all persons whomsoever. The Issuer covenants that it will do, execute, acknowledge and deliver, or cause to be done, executed, acknowledged and delivered, such indentures supplemental hereto and such further acts, instruments and transfers as the Trustee may reasonably require for the better assuring, transferring, pledging, assigning and confirming to the Trustee all and singular the rights assigned hereby and the amounts pledged hereby to the payment of the principal of, and premium, if any, and interest on, the Bonds. The Issuer covenants and agrees that, except as herein and in the Agreement provided, it will not sell, convey, assign, pledge, encumber or otherwise dispose of any part of the Trust Estate.

Section 5.05. Recording and Filing; Further Instruments. (a) The Issuer and the Trustee shall cooperate with the Company in causing to be filed and recorded all documents, notices and financing statements related to this Indenture and to the Agreement which are necessary, as required by law, in order to perfect the lien of this Indenture. Concurrently with the execution and delivery of the Bonds, in accordance with the requirements of Section 5.04 of the Agreement, the Company shall cause to be delivered to the Trustee an opinion of counsel (i) stating that, in the opinion of such counsel, either (A) such action has been taken, as set forth therein, with respect to the recording and filing of such documents, notices and

financing statements as is necessary to perfect the lien of this Indenture, or (B) no such action is necessary to perfect such lien, and (ii) stating the requirements for the filing of continuation statements or other documentation or notices in order to maintain the perfection of the lien of this Indenture.

(b) The Issuer shall, upon the reasonable request of the Trustee, from time to time execute and deliver such further instruments and take such further action as may be reasonable (and consistent with the Bond Documents) and as may be required to effectuate the purposes of this Indenture or any provisions hereof, *provided, however*, that no such instruments or actions shall pledge the general credit or the full faith of the Issuer.

Section 5.06. *Rights Under Agreement.* The Agreement, duly executed counterparts of which have been filed with the Trustee, sets forth the covenants and obligations of the Issuer and the Company, including provisions that, subsequent to the issuance of the Bonds and prior to the payment in full or provision for payment thereof in accordance with the provisions hereof, the Agreement (except as expressly provided therein) may not be effectively amended, changed, modified, altered or terminated without the concurring written consent of the Trustee, as provided in Article XII hereof, and reference is hereby made to the Agreement for a detailed statement of such covenants and obligations of the Company, and the Issuer agrees that the Trustee in its name or (to the extent required by law) in the name of the Issuer may enforce all rights of the Issuer and all obligations of the Company under and pursuant to the Agreement, whether or not the Issuer is in default hereunder. The Issuer shall cooperate with the Trustee in enforcing the obligations of the Company to pay or cause to be paid all amounts payable by the Company under the Agreement.

Section 5.07. *Arbitrage and Tax Covenants.* The Issuer shall not use or permit the use of any proceeds of the Bonds or any other funds of the Issuer, directly or indirectly, to acquire any securities or obligations, and shall not use or permit the use of any Revenues in any manner, and shall not take or permit to be taken any other action or actions, which would cause any Bond to be an "arbitrage bond" within the meaning of Section 148 of the Code, or which would otherwise adversely affect the Tax-Exempt status of the Bonds.

The Issuer shall at all times do and perform all acts and things permitted by law and necessary or desirable in order to assure that the Bonds remain Tax-Exempt.

Section 5.08. *No Disposition of Trust Estate.* Except as permitted by this Indenture, the Issuer shall not sell, lease, pledge, assign or otherwise encumber or dispose of its interest in the Trust Estate and will promptly pay (but only from the Revenues) or cause to be discharged, or make adequate provision to discharge, any lien or charge on any part thereof not permitted hereby.

Section 5.09. *Access to Books.* All books and documents in the possession of the Issuer relating to the Project, the Revenues and the Trust Estate shall at all reasonable times be open to inspection by such accountants or other agencies as the Trustee or each Bank or each Obligor on an Alternate Liquidity Facility, as the case may be, may from time to time designate.

Section 5.10. Source of Payment of Bonds. The Bonds are not general obligations of the Issuer but are limited obligations payable solely from the Revenues. The Revenues have been pledged and assigned as security for the equal and ratable payment of the Bonds and shall be used for no other purpose than to pay the principal of, and premium, if any, and interest on, the Bonds, except as may be otherwise expressly authorized in this Indenture or the Agreement.

Section 5.11. No Transfer of First Mortgage Bonds. The Trustee shall not sell, assign or transfer the First Mortgage Bonds except to a successor trustee under this Indenture. The First Mortgage Bonds may be held by and registered in the name of the Trustee's nominee without violating the provisions of the preceding sentence, *provided* that such nominee is under the control of the Trustee and that the ability of the Trustee to perform its obligations hereunder and under the Pledge Agreement will not be adversely affected thereby.

Section 5.12. Voting of First Mortgage Bonds. The Trustee shall, as the holder of the First Mortgage Bonds, attend such meeting or meetings of bondholders under the Company Mortgage or, at its option, deliver its proxy in connection therewith, as related to matters with respect to which it is entitled to vote or consent. So long as no Event of Default shall have occurred and be continuing, either at any such meeting or meetings, or otherwise when the consent of the holders of the first mortgage and collateral trust bonds issued under the Company Mortgage is sought without a meeting, the Trustee shall vote as the holder of the First Mortgage Bonds, or shall consent with respect thereto, proportionately with the vote or consent of the holders of all other first mortgage and collateral trust bonds of the Company then outstanding under the Company Mortgage, the holders of which are eligible to vote or consent, as indicated in a Bondholder's Certificate (as hereinafter defined) delivered to the Trustee; *provided, however*, that the Trustee shall not vote as such holder in favor of, or give its consent to, any amendment or modification of the Company Mortgage which, if it were an amendment or modification of this Indenture, would not be described in Section 12.01 hereof without (a) the prior consent and approval, obtained in the manner prescribed in Section 12.02 hereof, of Owners of Bonds which would be required under said Section 12.02 for such an amendment or modification of this Indenture and (b) the consent of the Insurer (unless an Insurer Default shall have occurred and be continuing, in which event the consent of each Bank or each Obligor on an Alternate Liquidity Facility, as the case may be, shall be required).

For purposes of this Section 5.12, "*Bondholder's Certificate*" means a certificate signed by the temporary chairman, the temporary secretary, the permanent chairman, the permanent secretary, or an inspector of votes at any meeting or meetings of bondholders under the Company Mortgage, or by the Company Mortgage Trustee in the case of consents of such bondholders which are sought without a meeting, which states what the signer thereof reasonably believes will be the proportionate votes or consents of the holders of all first mortgage and collateral trust bonds (other than the First Mortgage Bonds) outstanding under the Company Mortgage and counted for the purposes of determining whether such bondholders have approved or consented to the matter put before them.

Any action taken by the Trustee in accordance with the provisions of this Section 5.12 shall be binding upon the Issuer and the Owners of Bonds.

Section 5.13. Surrender of First Mortgage Bonds. The Trustee shall surrender First Mortgage Bonds to the Company Mortgage Trustee only in accordance with the provisions of Section 4.04(e) or Section 4.04(f) of the Agreement.

Section 5.14. Notice to Company Mortgage Trustee. In the event that a payment on the First Mortgage Bonds shall have become due and payable and shall not have been fully paid, the Trustee shall forthwith give notice thereof to the Company Mortgage Trustee signed by its President, a Vice President, a Senior Trust Officer or a Trust Officer, specifying, with respect to principal of the First Mortgage Bonds, the principal amount of First Mortgage Bonds then due and payable and the amount of funds required to make such payment and, with respect to interest on the First Mortgage Bonds, the last date to which interest has been paid and the amount of funds required to make such payment. In the event that the Trustee shall have received written notice pursuant to Section 8.01 of the Agreement to the effect that any Bonds are to be redeemed pursuant to Section 4.02 or Section 4.03 hereof, the Trustee shall forthwith give notice thereof to the Company Mortgage Trustee specifying the principal amount, interest rate and redemption date of Bonds so to be redeemed. Any such notice given by the Trustee shall be signed by its President, a Vice President, a Senior Trust Officer or a Trust Officer thereof. The Trustee shall incur no liability for failure to give any such notice, and such failure shall have no effect on the obligations of the Company on the First Mortgage Bonds or on the rights of the Trustee or of the Owners of Bonds.

Section 5.15. Insurance Policy. The Trustee and the Paying Agent shall take action under the Insurance Policy, in accordance with the terms and subject to the coverage thereof, to the extent necessary in order to cause amounts in respect of the principal of and interest on the Bonds to be payable by the Insurer pursuant to the Insurance Policy to the Owners of the Bonds. The Trustee shall not sell, assign, transfer or surrender the Insurance Policy except to a successor Trustee hereunder.

ARTICLE VI

DEPOSIT OF BOND PROCEEDS; FUNDS AND ACCOUNTS; REVENUES; STANDBY PURCHASE AGREEMENT

Section 6.01. Creation of Funds and Accounts. There are hereby created by the Issuer and ordered established the following trust funds and trust accounts to be held by the Trustee:

- (a) A separate Bond Fund, to be designated "Carbon County, Utah, Pollution Control Revenue Refunding Bonds (PacifiCorp Project) Series 1994 Bond Fund" and therein a Principal Account and an Interest Account; and

(b) A separate Liquidity Fund to be designated "Carbon County, Utah, Pollution Control Revenue Refunding Bonds (PacifiCorp Project) Series 1994 Liquidity Fund".

Section 6.02. Disposition of Bond Proceeds. In accordance with the provisions of Section 3.03 of the Agreement, the Trustee shall, simultaneously with the initial authentication and delivery of the Bonds, cause the proceeds from the sale of the Bonds to be transferred to the Prior Trustee for deposit into the Prior Bond Fund for the purpose of effecting the Refunding of the Prior Bonds.

Section 6.03. Deposits into the Bond Fund; Use of Moneys in the Bond Fund.
(a) There shall be deposited into the Principal Account of the Bond Fund (i) payments made by the Company pursuant to the Agreement in respect of principal of or premium payable on the Bonds, including any payments of principal of and premium, if any, on the First Mortgage Bonds, and (ii) any other moneys required by this Indenture or the Agreement to be deposited into the Principal Account of the Bond Fund.

(b) There shall be deposited into the Interest Account of the Bond Fund (i) payments made by the Company pursuant to the Agreement in respect of interest on the Bonds, including any payments of interest on the First Mortgage Bonds, and (ii) any other moneys required by this Indenture or the Agreement to be deposited into the Interest Account of the Bond Fund. Notwithstanding the foregoing, interest on the Unremarketed Bonds shall be paid in accordance with the provisions of Section 2.02(i) hereof.

(c) Except as provided in this paragraph, in Section 6.05, Section 6.06, Section 9.10 or Section 10.04 hereof and in the Tax Certificate, moneys in the Principal Account of the Bond Fund shall be used solely for the payment of principal of and premium, if any, on the Bonds as the same shall become due and payable at maturity, upon redemption or upon acceleration of maturity.

(d) Except as provided in this paragraph, in Section 6.05, Section 6.06, Section 9.10 and Section 10.04 hereof and in the Tax Certificate, moneys in the Interest Account of the Bond Fund shall be used solely to pay interest on the Bonds when due.

The Trustee shall identify appropriate sources of moneys and apply such moneys to pay principal of, and premium, if any, and interest on, the Bonds as and when required by the terms of this Indenture.

Section 6.04. Standby Purchase Agreement Moneys; Substitution, Cancellation, Expiration and Assignment of Standby Purchase Agreement; Deposits into Liquidity Fund.

(a) During such time as a Standby Purchase Agreement or an Alternate Liquidity Facility, as the case may be, is in effect, the Trustee shall take the action specified in the Standby Purchase Agreement or the Alternate Liquidity Facility, as the case may be, to receive moneys in an amount which, together with other moneys, will be sufficient, together with any moneys then on deposit in the Liquidity Fund, to pay the purchase price of the Bonds pursuant to Section 3.01 and Section 3.02 hereof; *provided, however*, that in no event shall the Trustee

take any such action to make any payment with respect to Unremarketed Bonds or Bonds not remarketed and held of record by the Company, any "insider" (as defined in the United States Bankruptcy Code) thereof, any affiliate of the Company, any broker-dealer holding Bonds not remarketed pursuant to an arrangement with the Company or the Issuer. The Trustee shall, upon the receipt of written information from the Remarketing Agent pursuant to Section 3.06(c) hereof, take the action specified in the Standby Purchase Agreement or an Alternate Liquidity Facility, as the case may be, to receive moneys under the Standby Purchase Agreement or the Alternate Liquidity Facility, as the case may be, required to pay the purchase price of the Bonds in accordance with Section 3.06(c) hereof and in accordance with its terms to ensure timely payment thereof to the extent necessary to pay to the Trustee the purchase price of Bonds delivered or deemed to be delivered to the Trustee in accordance with Section 3.01 and Section 3.02 hereof.

Immediately following the receipt of moneys under the Standby Purchase Agreement or an Alternate Liquidity Facility, as the case may be, required to pay the purchase price of Bonds and not as a condition to such receipt, the Trustee shall use its best efforts to give telephonic notice to the Company that such moneys provided under the Standby Purchase Agreement or the Alternate Liquidity Facility, as the case may be, were received.

(b) If at any time there shall have been delivered to the Trustee, in substitution for the Standby Purchase Agreement or Alternate Liquidity Facility then in effect, either (i) an Alternate Liquidity Facility which qualifies and is delivered pursuant to Section 4.03 of the Agreement, or (ii) a Substitute Standby Purchase Agreement which qualifies and is delivered pursuant to Section 4.03 of the Agreement, then the Trustee shall accept such Alternate Liquidity Facility or Substitute Standby Purchase Agreement and, subject to the provisions of said Section 4.03, shall promptly surrender the Standby Purchase Agreement or Alternate Liquidity Facility then in effect to the Agent Bank or the Agent Obligor on an Alternate Liquidity Facility, as the case may be, which provided the Standby Purchase Agreement or Alternate Liquidity Facility in accordance with its terms for cancellation. If at any time there shall cease to be any Bonds Outstanding hereunder, the Trustee shall promptly surrender the Standby Purchase Agreement or Alternate Liquidity Facility then in effect to the Agent Bank or the Agent Obligor on an Alternate Liquidity Facility, as the case may be, which provided such Standby Purchase Agreement or Alternate Liquidity Facility in accordance with the terms thereof and of this Indenture for cancellation.

(c) The Trustee shall not sell, assign or otherwise transfer the Standby Purchase Agreement or the Alternate Liquidity Facility, as the case may be, or any interest in the Revenues except to a successor Trustee hereunder and in accordance with the terms of the Standby Purchase Agreement or the Alternate Liquidity Facility, as the case may be, or the Agreement, as the case may be.

(d) All moneys received by the Trustee pursuant to the Standby Purchase Agreement (or an Alternate Liquidity Facility, if applicable) as described in Section 6.04(a) shall be deposited into the Liquidity Fund. Amounts in the Liquidity Fund shall not be commingled with any other funds. Moneys in the Liquidity Fund shall be used solely to pay the purchase price on the Bonds pursuant to Section 3.01 and Section 3.02 hereof.

(e) While a book-entry system is in effect for the Bonds, the Trustee shall give written notice of the Expiration of the term of the Standby Purchase Agreement (or the Expiration of the term of an Alternate Liquidity Facility, as the case may be) to DTC at least twenty (20) days prior to the effective date of the Expiration of the term of the Standby Purchase Agreement (or Expiration of the term of an Alternate Liquidity Facility, as the case may be). In the event that notice cannot be given within such twenty-day period, the Trustee shall provide such notice as soon as practicable.

Section 6.05. Bonds Not Presented for Payment of Principal. In the event any Bonds shall not be presented for payment when the principal thereof becomes due, either at maturity or at the date fixed for redemption thereof or the acceleration of maturity, if moneys sufficient to pay such Bonds are held by the Trustee, the Trustee shall segregate and hold such moneys in trust (but shall not invest such moneys), without liability for interest thereon, for the benefit of Owners of such Bonds who shall, except as provided in the following paragraph, thereafter be restricted exclusively to such fund or funds for the satisfaction of any claim of whatever nature on their part under this Indenture or relating to said Bonds. Such Bonds which shall not have been so presented for payment shall be deemed paid for all purposes of this Indenture.

Any moneys which the Trustee shall segregate and hold in trust for the payment of the principal of or interest on any Bond and remaining unclaimed for two years after such principal or interest has become due and payable shall be paid by the Trustee to the Company. After the payment of such unclaimed moneys to the Company, the Owner of such Bond shall look only to the Company for payment, and then only to the extent of the amount so repaid to the Company, and the Company shall not be liable for any interest thereon and shall not be regarded as a trustee of such money, and all liability of the Issuer and the Trustee with respect to such moneys shall thereupon cease.

Section 6.06. Payment to the Company. After the right, title and interest of the Trustee in and to the Trust Estate and all covenants, agreements and other obligations of the Issuer to the Owners shall have ceased, terminated and become void and shall have been satisfied and discharged in accordance with Section 6.05 and Article VIII hereof, and all fees, expenses and other amounts payable to the Registrar, the Trustee, the Issuer, the Remarketing Agent, the Insurer, the Agent Bank (or the Agent Obligor on an Alternate Liquidity Facility, as the case may be) and each Bank (or each Obligor on an Alternate Liquidity Facility, as the case may be) pursuant to any provision hereof or of the Insurance Agreement, the Liquidity Agreement, the Standby Purchase Agreement or an Alternate Liquidity Facility shall have been paid in full, any moneys remaining in the Bond Fund shall be paid to the Company upon its written request.

ARTICLE VII

INVESTMENTS

Section 7.01 Investment of Moneys in Bond Fund and Liquidity Fund. Subject to Section 5.07 hereof and the provisions of the Tax Certificate, moneys in the Bond Fund shall be invested and reinvested in Investment Securities that mature at the time and in the amounts

necessary to effect timely payment of principal of, premium, if any, and interest on, the Bonds. Moneys in the Liquidity Fund shall be held uninvested. Such investments shall be made by the Trustee as directed and designated by the Company in a certificate of, or telephonic advice promptly confirmed by a certificate of, an Authorized Company Representative. Each such certificate or telephonic advice shall contain a statement that each investment so designated by the Company constitutes an "Investment Security" or "Government Obligation" as applicable and can be made without violation of any provision hereof or of the Agreement or of the Tax Certificate. The Trustee shall be entitled to rely on each such certificate or advice and shall incur no liability for making any such investment so designated or for any loss incurred in selling such investment. No investment instructions shall be given by the Company if the investments to be made pursuant thereto would violate any covenant set forth in Section 5.07 hereof or the provisions of the Agreement or the Tax Certificate.

Section 7.02. Conversion of Investment to Cash. As and when any amounts so invested may be needed for disbursements from the Bond Fund, the Trustee shall cause a sufficient amount of such investments to be sold or otherwise converted into cash to the credit of such fund. As long as no Event of Default shall have occurred and be continuing, the Company shall have the right to designate the investments to be sold and to otherwise direct the Trustee in the sale or conversion to cash of the investments made with the moneys in the Bond Fund; provided that the Trustee shall be entitled to conclusively assume the absence of any Event of Default unless it has notice thereof within the meaning of Section 10.05 hereof.

Section 7.03. Credit for Gains and Charge for Losses. Gains from investments shall be credited to and held in and losses shall be charged to the fund or account from which the investment is made.

ARTICLE VIII

DEFEASANCE

If the Issuer shall pay or cause to be paid to the Owner of any Bond secured hereby the principal of, and premium, if any, and interest due and payable, and thereafter to become due and payable, upon, such Bond, or any portion of such Bond in any integral multiple of the Authorized Denomination thereof, such Bond or portion thereof shall cease to be entitled to any lien, benefit or security under this Indenture.

If the Issuer shall pay or cause to be paid the principal of, and premium, if any, and interest due and payable on, all Outstanding Bonds, and thereafter to become due and payable thereon, and shall pay or cause to be paid all other sums payable hereunder by the Issuer, including all necessary and proper fees, compensation and expenses of the Trustee, the Registrar, the Remarketing Agent, the Insurer and the Agent Bank (or the Agent Obligor on an Alternate Liquidity Facility, as the case may be), and each Bank (or each Obligor on an Alternate Liquidity Facility, as the case may be), then, and in that case, the right, title and interest of the Trustee in and to the Trust Estate shall thereupon cease, terminate and become void. In such event, the Trustee shall assign, transfer and turn over to the Company, the Trust

Estate, including, without limitation, any surplus in the Bond Fund and any balance remaining in any other fund created under this Indenture. Notwithstanding anything herein to the contrary, in the event that the principal of and interest due on any Bonds shall be paid by the Insurer pursuant to the Insurance Policy, such Bonds shall remain Outstanding for all purposes, shall not be defeased or otherwise satisfied and shall not be considered paid by the Issuer, and the assignment and pledge of the Trust Estate and all covenants, agreements and other obligations of the Issuer to such Owners shall continue to exist and shall run to the benefit of the Insurer and the Insurer shall be subrogated to the rights of such Owners.

All or any portions of Bonds (in Authorized Denominations) shall, prior to the maturity or redemption date thereof, be deemed to have been paid within the meaning of this Article VIII and for all purposes of this Indenture when:

(a) in the event said Bonds or portions thereof have been selected for redemption in accordance with Section 4.04 hereof, the Trustee shall have given, or the Company shall have given to the Trustee in form satisfactory to it irrevocable instructions to give, on a date in accordance with the provisions of Section 4.05 hereof, notice of redemption of such Bonds or portions thereof;

(b) there shall have been deposited with the Trustee moneys which constitute Available Moneys or moneys provided under the Standby Purchase Agreement or an Alternate Liquidity Facility to pay the purchase price of Bonds;

(c) the moneys so deposited with the Trustee shall be in an amount sufficient (without relying on any investment income) to pay when due the principal of, and premium, if any, and interest due and to become due (which amount of interest to become due shall be calculated at the Maximum Interest Rate unless the interest rate borne by all of such Bonds is not subject to adjustment prior to the maturity or redemption thereof, in which case the amount of interest shall be calculated at the rate borne by such Bonds) on said Bonds or portions thereof on and prior to the redemption date or maturity date thereof, as the case may be; *provided, however*, that if such payment is to be made upon redemption pursuant to Section 4.02 hereof, such payment shall be made from Available Moneys;

(d) in the event said Bonds or portions thereof do not mature and are not to be redeemed within the next succeeding 60 days, the Issuer at the direction of the Company shall have given the Trustee in form satisfactory to it irrevocable instructions to give, as soon as practicable in the same manner as a notice of redemption is given pursuant to Section 4.05 hereof, a notice to the Owners of said Bonds or portions thereof and to the Insurer that the deposit required by clause (b) above has been made with the Trustee and that said Bonds or portions thereof are deemed to have been paid in accordance with this Article VIII and stating the maturity or redemption date upon which moneys are to be available for the payment of the principal of, and premium, if any, and interest on, said Bonds or portions thereof;

(e) the Trustee and the Insurer shall have received written evidence from Moody's, if the Bonds are then rated by Moody's, and S&P, if the Bonds are then rated by S&P, that such action will not result in a reduction, suspension or withdrawal of the rating on the Bonds;

(f) the Trustee, Moody's, if the Bonds are then rated by Moody's, and S&P, if the Bonds are then rated by S&P, and the Insurer shall have received an opinion of an independent public accountant of nationally recognized standing, selected by the Company (an "*Accountant's Opinion*"), to the effect that the requirements set forth in clause (c) above have been satisfied; and

(g) the Trustee, Moody's, if the Bonds are then rated by Moody's, and S&P, if the Bonds are then rated by S&P, and the Insurer shall have received an opinion of Bond Counsel to the effect that such deposit will not adversely affect the Tax-Exempt status of the Bonds ("*Bond Counsel's Opinion*").

Moneys deposited with the Trustee pursuant to this Article VIII shall not be withdrawn or used for any purpose other than, and shall be held in trust for, the payment of the principal of, premium, if any, and interest on said Bonds or portions thereof, or for the payment of the purchase price of Bonds in accordance with Section 3.03 hereof; *provided* that such moneys, if not then needed for such purpose, shall, to the extent practicable, be invested and reinvested in Government Obligations maturing on or prior to the earlier of (i) the date moneys may be required for the purchase of Bonds pursuant to Section 3.03 hereof or (ii) the Interest Payment Date next succeeding the date of investment or reinvestment, and interest earned from such investments shall be paid over to the Company, as received by the Trustee, free and clear of any trust, lien or pledge. If payment of less than all the Bonds is to be provided for in the manner and with the effect provided in this Article VIII, the Trustee shall select such Bonds or portion of such Bonds in the manner specified by Section 4.04 hereof for selection for redemption of less than all Bonds in the principal amount, not less than \$100,000, designated to the Trustee by the Company.

The provisions of this Indenture relating to (i) the registration and exchange of Bonds, (ii) the delivery of Bonds to the Trustee for purchase and the related obligations of the Trustee with respect thereto, (iii) the mandatory purchase of the Bonds pursuant to Section 3.02(a)(iii) hereof, and (iv) payment of the Bonds from such moneys, shall remain in full force and effect with respect to all Bonds until the maturity date of the Bonds or the last date fixed for redemption of all Bonds prior to maturity, notwithstanding that all or any portion of the Bonds are deemed to be paid within the meaning of this Article VIII; *provided further*, that the provisions with respect to registration and exchange of Bonds shall continue to be effective until the maturity or the last date fixed for redemption of all Bonds.

In the event the requirements of the last sentence of the next succeeding paragraph can be satisfied, the preceding three paragraphs shall not apply and the following two paragraphs shall be applicable.

Any Bond shall be deemed to be paid within the meaning of this Article VIII and for all purposes of this Indenture when:

(i) payment of the principal of and premium, if any, on such Bond, plus interest thereon to the due date thereof (whether such due date is by reason of maturity or acceleration or upon redemption as provided herein) either (A) shall have been made or caused to be made in accordance with the terms thereof or (B) shall have been provided for by irrevocably depositing with the Trustee in trust and irrevocably set aside exclusively for such payment, (1) moneys sufficient to make such payment, and/or (2) Government Obligations maturing as to principal and interest in such amount and at such time as will insure, without reinvestment, the availability of sufficient moneys to make such payment; *provided, however*, that if such payment is to be made upon redemption pursuant to Section 4.02 hereof, such payment shall be made from Available Moneys or from Government Obligations purchased with Available Moneys;

(ii) all necessary and proper fees, compensation and expenses of the Issuer, the Trustee and the Registrar pertaining to the Bonds with respect to which such deposit is made shall have been paid or the payment thereof provided for to the satisfaction of the Trustee; and

(iii) an Accountant's Opinion to the effect that such moneys and/or Government Obligations will insure, without reinvestment, the availability of sufficient moneys to make such payment, and a Bond Counsel's Opinion shall have been delivered to the Trustee, Moody's, if the Bonds are then rated by Moody's, and S&P, if the Bonds are then rated by S&P. At such times as a Bond shall be deemed to be paid hereunder, as aforesaid, such Bond shall no longer be secured by or entitled to the benefits of this Indenture, except for the purposes of registration and exchange of Bonds and of any such payment from such moneys or Government Obligations.

The provisions of this paragraph shall apply only if (x) such Bond matures or is called for redemption prior to the next date upon which such Bond is subject to purchase pursuant to Section 3.01 and Section 3.02 hereof, and (y) the Company waives, to the satisfaction of the Trustee, its right to convert the interest rate borne by such Bond.

Notwithstanding the foregoing paragraph, no deposit under clause (i)(B) of the immediately preceding paragraph shall be deemed a payment of such Bonds as aforesaid until: (i) proper notice of redemption of such Bonds shall have been previously given in accordance with Section 4.05 hereof, or in the event said Bonds are not to be redeemed within the next succeeding 60 days, until the Company shall have given the Trustee on behalf of the Issuer, in form satisfactory to the Trustee, irrevocable instructions to notify, as soon as practicable, the Owners of the Bonds in accordance with Section 4.05 hereof, that the deposit required by clause (i)(B) above has been made with the Trustee and that said Bonds are deemed to have been paid in accordance with this Article VIII and stating the maturity or redemption date upon which moneys are to be available for the payment of the principal of and the applicable redemption premium, if any, on said Bonds, plus interest thereon to the due date thereof; or (ii) the maturity of such Bonds.

ARTICLE IX

DEFAULTS AND REMEDIES

Section 9.01. Events of Default. Each of the following events shall constitute and is referred to in this Indenture as an “*Event of Default*”:

(a) a failure to pay the principal of or premium, if any, on any of the Bonds when the same shall become due and payable at maturity, upon redemption or otherwise;

(b) a failure to pay an installment of interest on any of the Bonds for a period of one day after such interest has become due and payable;

(c) a failure to pay an amount due in respect of the purchase price of Bonds delivered to the Trustee pursuant to Section 3.01 and Section 3.02 hereof after such payment has become due and payable;

(d) a failure by the Issuer to observe and perform any covenant, condition, agreement or provision (other than as specified in Section 9.01(a), Section 9.01(b) and Section 9.01(c)) contained in the Bonds or in this Indenture on the part of the Issuer to be observed or performed, which failure shall continue for a period of 90 days after written notice, specifying such failure and requesting that it be remedied, shall have been given to the Issuer and the Company by the Trustee by registered or certified mail, which may give such notice in its discretion and shall give such notice at the written request of the Owners of not less than 25% in principal amount of the Bonds then Outstanding, unless the Trustee, or the Trustee and the Owners of a principal amount of Bonds not less than the principal amount of Bonds the Owners of which requested such notice, as the case may be, shall agree in writing to an extension of such period prior to its expiration; *provided, however*, that the Trustee, or the Trustee and the Owners of such principal amount of Bonds, as the case may be, shall be deemed to have agreed to an extension of such period if corrective action is initiated by the Issuer or the Company on behalf of the Issuer within such period and is being diligently pursued;

(e) an “Event of Default” under the Agreement; or

(f) a “Default” as such term is defined in Section 15.01 of the Company Mortgage.

If on the date payment of principal of or interest on the Bonds is due, or if on the date on which payment of the purchase price of Bonds is to be made by the Trustee, sufficient moneys are not available to make such payment, the Trustee shall promptly give telephonic notice of such insufficiency to the Company.

Section 9.02. Acceleration; Other Remedies. (a)(i) If an Event of Default described in Section 9.01(a), Section 9.01(b), Section 9.01(c) or Section 9.01(f) hereof or an Event of

Default described in Section 9.01(e) hereof resulting from an "Event of Default" under Section 7.01(a) or Section 7.01(c) of the Agreement (of which the Trustee shall be deemed to have notice pursuant to the provisions of Section 10.05 hereof) has occurred and has not been cured or waived and further upon the conditions that, if (i) in accordance with the terms of the Company Mortgage, the First Mortgage Bonds shall have become immediately due and payable pursuant to any provision of the Company Mortgage and (ii) there shall have been filed with the Trustee a written direction of the Insurer (unless an Insurer Default shall have occurred and be continuing), then the Bonds shall, without further action, become and be immediately due and payable, anything in this Indenture or in the Bonds to the contrary notwithstanding, and the Trustee shall give notice thereof to the Issuer, the Company and the Insurer and shall give notice thereof by Mail to all Owners of Outstanding Bonds.

The provisions of the preceding paragraph, however, are subject to the condition that any waiver of any "Default" under the Company Mortgage and a rescission and annulment of its consequences shall constitute a waiver of the corresponding Event or Events of Default and a rescission and annulment of the consequences thereof. The Trustee shall promptly give written notice of such waiver, rescission or annulment to the Issuer, the Company and the Insurer and shall give notice thereof by Mail to all Owners of Outstanding Bonds *provided* that it is deemed to have notice thereof under Section 10.05 hereof; but no such waiver, rescission and annulment shall extend to or affect any other Event of Default or any subsequent Event of Default or impair any right or remedy consequent thereon.

(b) The provisions of Section 9.02(a) are subject further to the condition that if, after the principal of the Bonds shall have been so declared to be due and payable and before any judgment or decree for the payment of the moneys due shall have been obtained or entered as hereinafter provided, the Issuer shall cause to be deposited with the Trustee a sum sufficient to pay all matured installments of interest upon all Bonds and the principal of any and all Bonds which shall have become due otherwise than by reason of such declaration (with interest upon such principal and, to the extent permissible by law, on overdue installments of interest, at the rate per annum specified in the Bonds) and such amount as shall be sufficient to cover reasonable compensation and reimbursement of expenses payable to the Trustee, and all Events of Default (other than nonpayment of the principal of Bonds which shall have become due by said declaration) shall have been remedied, then, in every such case, such Event of Default shall be deemed waived and such declaration and its consequences rescinded and annulled, and the Trustee shall promptly give written notice of such waiver, rescission or annulment to the Issuer and the Company, and shall give notice thereof by Mail to all Owners of Outstanding Bonds; *provided, however*, that to the extent the Standby Purchase Agreement (or an Alternate Liquidity Facility, as the case may be) was in effect immediately prior to the Event of Default there shall be no waiver, rescission or annulment until the commitments of each Bank or each Obligor on an Alternate Liquidity Facility, as the case may be, to provide moneys in accordance with the Standby Purchase Agreement or the Alternate Liquidity Agreement, respectively, to purchase Bonds pursuant to Section 3.01 or Section 3.02 hereof shall have been fully reinstated; *provided further* that no such waiver, rescission and annulment shall extend to or affect any other Event of Default or subsequent Event of Default or impair any right, power or remedy consequent thereon.

(c) (i) Upon the occurrence and continuance of any Event of Default, then and in every such case the Trustee in its discretion, with the consent of the Insurer (unless an Insurer Default shall have occurred and be continuing), may, and upon the written direction of the Owners of not less than 25% in principal amount of the Bonds then Outstanding and receipt of indemnity to its satisfaction (except against gross negligence or willful misconduct) shall, in its own name and as the Trustee of an express trust:

(A) by mandamus, or other suit, action or proceeding at law or in equity, enforce all rights of the Owners under, and require the Issuer, the Insurer, any Bank (or any Obligor on an Alternate Liquidity Facility, as the case may be) or the Company to carry out any agreements with or for the benefit of the Owners of Bonds and to perform its or their duties under, the Act, the Agreement, the Standby Purchase Agreement (or the Alternate Liquidity Facility, as the case may be), the Insurance Agreement, the Insurance Policy and this Indenture, *provided* that any such remedy may be taken only to the extent permitted under the applicable provisions of the Agreement or this Indenture, as the case may be;

(B) bring suit upon the Bonds;

(C) by action or suit in equity require the Issuer to account as if it were the trustee of an express trust for the Owners of Bonds; or

(D) by action or suit in equity enjoin any acts or things which may be unlawful or in violation of the rights of the Owners of Bonds.

(ii) So long as an Insurer Default shall not have occurred and be continuing, anything in this Indenture to the contrary notwithstanding, upon the occurrence and continuance of an Event of Default, the Insurer shall be entitled to control and direct the enforcement of all rights and remedies granted to the Owners of the Bonds or the Trustee for the benefit of such Owners under this Indenture.

(d) The Trustee shall waive any Event of Default hereunder and its consequences and rescind any declaration of acceleration of principal upon (i) the written direction of the Insurer (unless an Insurer Default shall have occurred and be continuing) and (ii) the written request of the Owners of (A) more than two-thirds ($2/3$) in aggregate principal amount of all Outstanding Bonds in respect of which default in the payment of principal of or interest on the Bonds exists or (B) more than two-thirds ($2/3$) in aggregate principal amount of all Outstanding Bonds in the case of any other Event of Default; *provided, however*, that (x) there shall not be waived any Event of Default specified in Section 9.01(a) or Section 9.01(b) hereof unless prior to such waiver or rescission the Issuer shall have caused to be deposited with the Trustee a sum sufficient to pay all matured installments of interest upon all Bonds and the principal of any and all Bonds which shall have become due otherwise than by reason of such declaration of acceleration (with interest upon such principal and, to the extent permissible by law, on overdue installments of interest, at the rate per annum specified in the Bonds) and (y) no Event of Default shall be waived unless (in addition to the applicable conditions as aforesaid) there shall have been deposited with the Trustee such amount as shall be sufficient

to cover reasonable compensation and reimbursement of expenses payable to the Trustee. In case of any waiver or rescission described above, or in case any proceeding taken by the Trustee on account of any such Event of Default shall have been discontinued or concluded or determined adversely, then and in every such case the Issuer, the Trustee and the Owners of Bonds shall be restored to their former positions and rights hereunder, respectively; *provided, however,* that to the extent the Standby Purchase Agreement (or an Alternate Liquidity Facility, as the case may be) was in effect immediately prior to the Event of Default there shall be no waiver, rescission or annulment until the commitments of each Bank or each Obligor on an Alternate Liquidity Facility, as the case may be, to provide moneys in accordance with the Standby Purchase Agreement or the Alternate Liquidity Agreement, respectively, to purchase Bonds pursuant to Section 3.01 or Section 3.02 hereof shall have been fully reinstated; *provided further* that no such waiver or rescission shall extend to any subsequent or other Event of Default, or impair any right consequent thereon.

Section 9.03. Restoration to Former Position. In the event that any proceeding taken by the Trustee to enforce any right under this Indenture shall have been discontinued or abandoned for any reason, or shall have been determined adversely to the Trustee, then the Issuer, the Trustee and the Owners of Bonds shall be restored to their former positions and rights hereunder, respectively, and all rights, remedies and powers of the Trustee shall continue as though no such proceeding had been taken.

Section 9.04. Owners' Right to Direct Proceedings. Anything in this Indenture to the contrary notwithstanding, the Owners of a majority in principal amount of the Bonds then Outstanding shall have the right, by an instrument in writing executed and delivered to the Trustee and upon furnishing to the Trustee indemnity satisfactory to it (except against gross negligence or willful misconduct), to direct the time, method and place of conducting all remedial proceedings available to the Trustee under this Indenture or exercising any trust or power conferred on the Trustee by this Indenture, *provided* that such direction shall not be other than in accordance with the provisions of law and this Indenture and shall not result in any personal liability of the Trustee and *provided further* that if no Insurer Default shall have occurred and be continuing, the Insurer shall have consented to such direction.

Section 9.05. Limitation on Owners' Right to Institute Proceedings. No Owner shall have any right to institute any suit, action or proceeding in equity or at law for the execution of any trust or power hereunder, or any other remedy hereunder or in the Bonds, unless such Owner previously shall have given to the Trustee written notice of an Event of Default as hereinabove provided and unless the Owners of not less than 25% in principal amount of the Bonds then Outstanding shall have made written request of the Trustee so to do after the right to institute said suit, action or proceeding under Section 9.02 hereof shall have accrued, and shall have afforded the Trustee a reasonable opportunity to proceed to institute the same in either its or their name, and unless there also shall have been offered to the Trustee security and indemnity satisfactory to it against the costs, expenses and liabilities to be incurred therein or thereby (except against gross negligence or willful misconduct), and the Trustee shall not have complied with such request within a reasonable time; and such notification, request and offer of indemnity are hereby declared in every such case, at the option of the Trustee, to be conditions precedent to the institution of said suit, action or proceeding; it being understood

and intended that no one or more of the Owners shall have any right in any manner whatever by his or their action to affect, disturb or prejudice the security of this Indenture, or to enforce any right hereunder or under the Bonds, except in the manner herein provided, and that all suits, actions and proceedings at law or in equity shall be instituted, had and maintained in the manner herein provided and for the equal benefit of all Owners.

Section 9.06. No Impairment of Right to Enforce Payment. Notwithstanding any other provision in this Indenture, the right of any Owner to receive payment of the principal of, and premium, if any, and interest on, its Bond, on or after the respective due dates expressed therein, or to institute suit for the enforcement of any such payment on or after such respective dates, shall not be impaired or affected without the consent of such Owner.

Section 9.07. Proceedings by Trustee without Possession of Bonds. All rights of action under this Indenture or under any of the Bonds secured hereby which are enforceable by the Trustee may be enforced by it without the possession of any of the Bonds, or the production thereof at the trial or other proceedings relative thereto, and any such suit, action or proceeding instituted by the Trustee shall be brought in its name for the equal and ratable benefit of the Owners, subject to the provisions of this Indenture.

Section 9.08. No Remedy Exclusive. No remedy herein conferred upon or reserved to the Trustee or to the Owners is intended to be exclusive of any other remedy or remedies, and each and every such remedy shall be cumulative, and shall be in addition to every other remedy given hereunder or under the Agreement, or now or hereafter existing at law or in equity or by statute; *provided, however*, that any conditions set forth herein to the taking of any remedy to enforce the provisions of this Indenture, the Bonds or the Agreement shall also be conditions to seeking any remedies under any of the foregoing pursuant to this Section 9.08.

Section 9.09. No Waiver of Remedies. No delay or omission of the Trustee, any Bank (or any Obligor on an Alternate Liquidity Facility, as the case may be), the Agent Bank (or Agent Obligor on an Alternate Liquidity Facility, as the case may be) or of any Owner to exercise any right or power accruing upon any Event of Default shall impair any such right or power or shall be construed to be a waiver of any such Event of Default, or an acquiescence therein; and every power and remedy given by this Article IX to the Trustee, to any Bank (or any Obligor on an Alternate Liquidity Facility, as the case may be), the Agent Bank (or Agent Obligor on an Alternate Liquidity Facility, as the case may be) and to the Owners, respectively, may be exercised from time to time and as often as may be deemed expedient.

Section 9.10. Application of Moneys. Any moneys received by the Trustee, by any receiver or by any Owner pursuant to any right given or action taken under the provisions of this Article IX, after payment of the costs and expenses of the proceedings resulting in the collection of such moneys and of the expenses, liabilities and advances incurred or made by the Trustee (*provided* that moneys received under the Standby Purchase Agreement or an Alternate Liquidity Facility for the payment of the purchase price of the Bonds or other moneys held for Bonds not presented for payment or deemed paid pursuant to Section 6.05 and Article VIII hereof shall not be used for purposes other than payment of the Bonds), shall

be deposited in the Bond Fund and all moneys so deposited in the Bond Fund during the continuance of an Event of Default (other than moneys for the payment of Bonds which had matured or otherwise become payable prior to such Event of Default or for the payment of interest due prior to such Event of Default) shall be applied as follows:

(a) Unless the principal of all the Bonds shall have been declared due and payable, all such moneys shall be applied (i) first, to the payment to the persons entitled thereto of all installments of interest then due on each Bond, with interest on overdue installments of interest, if lawful, at the rate per annum borne by such Bond, in the order of maturity of the installments of such interest and, if the amount available shall not be sufficient to pay in full any particular installment of interest, then to the payment ratably, according to the amounts due on such installment, and (ii) second, to the payment to the persons entitled thereto of the unpaid principal of any of the Bonds which shall have become due (other than Bonds called for redemption for the payment of which money is held pursuant to the provisions of this Indenture) with interest on each Bond at its rate from the respective dates upon which it became due and, if the amount available shall not be sufficient to pay in full Bonds due on any particular date, together with such interest, then to the payment ratably, according to the amount of principal and interest due on such date, in each case to the persons entitled thereto, without any discrimination or privilege.

(b) If the principal of all the Bonds shall have been declared due and payable, all such moneys shall be applied to the payment of the principal and interest then due and unpaid upon the Bonds, with interest on overdue interest and principal, as aforesaid, without preference or priority of principal over interest or interest over principal, or of any installment of interest over any other installment of interest, or of any Bond over any other Bond, ratably, according to the amounts due respectively for principal and interest, to the persons entitled thereto without any discrimination or privilege.

(c) If the principal of all the Bonds shall have been declared due and payable, and if such declaration shall thereafter have been rescinded and annulled under the provisions of this Article IX, then, subject to the provisions of subparagraph (b) of this Section 9.10 which shall be applicable in the event that the principal of all the Bonds shall later become due and payable, the moneys shall be applied in accordance with the provisions of subparagraph (a) of this Section 9.10.

Whenever moneys are to be applied pursuant to the provisions of this Section 9.10, such moneys shall be applied at such times, and from time to time, as the Trustee shall determine, having due regard to the amount of such moneys available for application and the likelihood of additional moneys becoming available for such application in the future. Whenever the Trustee shall apply such funds, it shall fix the Bond Payment Date upon which such application is to commence and upon such Bond Payment Date interest on the amounts of principal and interest to be paid on such Bond Payment Date shall cease to accrue. The Trustee shall give notice of the deposit with it of any such moneys and of the fixing of any such Bond Payment Date by Mail to the Insurer and all Owners of Outstanding Bonds and

shall not be required to make payment to any Owner until such Bond shall be presented to the Trustee for appropriate endorsement or for cancellation if fully paid.

Section 9.11. Severability of Remedies. It is the purpose and intention of this Article IX to provide rights and remedies to the Trustee, each Bank (or each Obligor on an Alternate Liquidity Facility, as the case may be), the Agent Bank (or the Agent Obligor on an Alternate Liquidity Facility, as the case may be) and the Owners which may be lawfully granted under the provisions of the Act, but should any right or remedy herein granted be held to be unlawful, the Trustee, each Bank (or each Obligor on an Alternate Liquidity Facility, as the case may be), the Agent Bank (or the Agent Obligor on an Alternate Liquidity Facility, as the case may be) and the Owners shall be entitled, as above set forth, to every other right and remedy provided in this Indenture and by law.

ARTICLE X

TRUSTEE; REGISTRAR; REMARKETING AGENT

Section 10.01. Acceptance of Trusts. The Issuer initially appoints The First National Bank of Chicago as Trustee and Paying Agent. The Trustee hereby accepts and agrees to execute the trusts hereby created, but only upon the additional terms set forth in this Article X, to all of which the Issuer agrees and the respective Owners agree by their acceptance of delivery of any of the Bonds. The Trustee, prior to the occurrence of an Event of Default and after the curing of all Events of Default, undertakes to perform such duties and only such duties as are specifically set forth herein and no implied covenant shall be read into this Indenture.

Section 10.02. No Responsibility for Recitals. The recitals, statements and representations contained in this Indenture or in the Bonds, save only the Trustee's authentication upon the Bonds, shall not be taken and construed as made by or on the part of the Trustee, and the Trustee does not assume, and shall not have, any responsibility or obligation for the correctness of any thereof or for the validity or sufficiency of this Indenture, the Agreement or the First Mortgage Bonds, or the perfection or the maintenance of the perfection of any security interest granted hereby or for the validity, the enforceability or the priority of the lien of the Company Mortgage.

Section 10.03. Limitations on Liability. The Trustee may execute any of the trusts or powers hereof and perform the duties required of it hereunder by or through attorneys, agents, receivers or employees, and shall be entitled to advice of counsel concerning all matters of trust and its duties hereunder and shall not be answerable for the conduct of the same if appointed by the Trustee with reasonable care, and the advice of any such counsel shall be full and complete authorization and protection in respect of any action taken, suffered or omitted hereunder in good faith and reliance thereon. The Trustee shall not be answerable for the exercise of any discretion or power under this Indenture or for anything whatsoever in connection with the trust created hereby, except only for its own negligence or willful misconduct.

The Trustee shall not be liable with respect to any action taken or omitted to be taken by it in good faith in accordance with the direction of the Owners of not less than 25% in aggregate principal amount of the Bonds Outstanding relating to the time, method and place of conducting any proceeding or any remedy available to the Trustee, or exercising any trust or power conferred upon the Trustee under this Indenture.

Section 10.04. Compensation, Expenses and Advances. The Trustee, the Remarketing Agent, the Paying Agent and the Registrar shall be entitled to reasonable compensation for their services rendered hereunder (not limited by any provision of law in regard to the compensation of the trustee of an express trust) and to reimbursement for their actual out-of-pocket expenses (including reasonable counsel fees and expenses) reasonably incurred in connection therewith except as a result of their negligence or willful misconduct. If the Issuer shall fail to perform any of the covenants or agreements contained in this Indenture, the Trustee may, in its uncontrolled discretion and without notice to the Owners, at any time and from time to time, make advances to effect performance of the same on behalf of the Issuer, but the Trustee shall be under no obligation so to do; and any and all such advances shall bear interest at a rate per annum equal to the rate of interest then in effect and as announced by the Trustee as its prime lending rate for domestic commercial loans in the city in which is located the Principal Office of the Trustee; but no such advance shall operate to relieve the Issuer from any Event of Default. In the Agreement, the Company has agreed that it will pay to the Trustee, the Remarketing Agent, the Paying Agent and the Registrar compensation and reimbursement of expenses and advances, but the Company may, without creating an Event of Default, contest in good faith the reasonableness of any such expenses and advances. If the Company shall have failed to make any payment to the Trustee, the Remarketing Agent, the Paying Agent or the Registrar under the Agreement and such failure shall have resulted in an event of default under the Agreement, then each of the Trustee, the Remarketing Agent, the Paying Agent and the Registrar shall have, in addition to any other rights hereunder, a claim, prior to the claim of the Owners, for the payment of their compensation and the reimbursement of their expenses and any advances made by them, as provided in this Section 10.04, upon the moneys and obligations in the Bond Fund, except for moneys or obligations deposited with or paid to the Trustee for the redemption or payment of Bonds which are deemed to have been paid in accordance with Article VIII hereof, funds held pursuant to Section 6.05 hereof and payments on the First Mortgage Bonds. The Trustee, the Remarketing Agent, the Paying Agent and the Registrar shall have no claim on the amounts on deposit or to be deposited into the Liquidity Fund for the payment of their compensation or the reimbursement of their expenses or any advances made by them.

Section 10.05. Notice of Events of Default and Determination of Taxability. The Trustee shall not be required to take notice, or be deemed to have notice (a) of any Event of Default, other than an Event of Default under Section 9.01(a), Section 9.01(b) or Section 9.01(c) or (b) of any declaration of acceleration of the First Mortgage Bonds, any waiver of any "default" under the Company Mortgage or any rescission or annulment of its consequences, unless the Trustee shall have been specifically notified in writing at the Principal Office of the Trustee, Attention: Corporate Trust Administration, of such Event of Default by the Owners of at least 25% in principal amount of the Bonds then Outstanding, the Issuer, the Remarketing Agent or the Agent Bank or the Agent Obligor on an Alternate

Liquidity Facility, as the case may be. The Trustee may, however, at any time, in its discretion, require of the Issuer full information and cooperation as to the performance of any of the covenants, conditions and agreements contained herein. Such inquiry shall not for the purposes of this Section 10.05 constitute notice of any Event of Default. The Issuer and the Remarketing Agent shall not be required to take notice, or be deemed to have notice, of any Event of Default, other than an Event of Default of which it shall have actual knowledge. If an Event of Default described in Section 9.01(c) hereof occurs after the Trustee has notice of the same as provided in this Section 10.05, or if a Determination of Taxability occurs of which the Trustee has actual knowledge, then the Trustee shall give notice thereof by Mail to the Insurer, the Remarketing Agent and the Owners of Outstanding Bonds.

Section 10.06. Action by Trustee. (a) Except as provided in Section 2.09, Section 3.03, Section 6.04 and Section 9.02 hereof and except for the payment of principal of, and premium, if any, and interest on, the Bonds when due from moneys held by the Trustee as part of the Trust Estate, the Trustee shall be under no obligation to take any action in respect of any Event of Default or toward the execution or enforcement of any of the trusts hereby created, or to institute, appear in or defend any suit or other proceeding in connection therewith, unless requested in writing so to do by the Owners of at least 25% in principal amount of the Bonds then Outstanding and, if in its opinion such action may tend to involve it in expense or liability, unless furnished, from time to time as often as it may require, with security and indemnity satisfactory to it (except against gross negligence or willful misconduct); but the foregoing provisions are intended only for the protection of the Trustee, and shall not affect any discretion or power given by any provisions of this Indenture to the Trustee to take action in respect of any Event of Default without such notice or request from the Owners, or without such security or indemnity.

(b) Notwithstanding any other provision of this Indenture, in determining whether the rights of the Owners will be adversely affected by any action taken pursuant to the terms and provisions of this Indenture, the Trustee shall consider the effect on the Owners as if there were no Insurance Policy.

Section 10.07. Good-Faith Reliance. The Trustee, the Registrar, the Remarketing Agent, the Insurer, each Bank (or each Obligor on an Alternate Liquidity Facility, as the case may be) and the Agent Bank (or the Agent Obligor on an Alternate Liquidity Facility, as the case may be) shall be protected and shall incur no liability in acting or proceeding in good faith upon any resolution, notice, telegram, telex or facsimile transmission, request, consent, waiver, certificate, statement, affidavit, voucher, bond, requisition or other paper or document which it shall in good faith believe to be genuine and to have been passed or signed by the proper board, body or person or to have been prepared and furnished pursuant to any of the provisions of this Indenture, the Company Mortgage, the Standby Purchase Agreement or the Alternate Liquidity Facility or the Agreement, or upon the written opinion of any attorney, engineer, accountant or other expert believed by the Trustee, the Registrar, the Remarketing Agent, the Insurer, any Bank (or any Obligor on an Alternate Liquidity Facility, as the case may be) or the Agent Bank (or the Agent Obligor on an Alternate Liquidity Facility, as the case may be), as the case may be, to be qualified in relation to the subject matter, and the Trustee, the Registrar, the Remarketing Agent, the Insurer, each Bank (or each Obligor on an

Alternate Liquidity Facility, as the case may be) and the Agent Bank (or the Agent Obligor on an Alternate Liquidity Facility, as the case may be) shall be under no duty to make any investigation or inquiry as to any statements contained or matters referred to in any such instrument, but may accept and rely upon the same as conclusive evidence of the truth and accuracy of such statements. Neither the Trustee, the Registrar, the Insurer, any Bank (or any Obligor on an Alternate Liquidity Facility, as the case may be), the Agent Bank (or the Agent Obligor on an Alternate Liquidity Facility, as the case may be) nor the Remarketing Agent shall be bound to recognize any person as an Owner or to take any action at such person's request unless satisfactory evidence of the ownership of such Bond shall be furnished to such entity.

Section 10.08. Dealings in Bonds. The Trustee, the Registrar, the Insurer, the Agent Bank (or the Agent Obligor on an Alternate Liquidity Facility, as the case may be), each Bank (or each Obligor on an Alternate Liquidity Facility, as the case may be) or the Remarketing Agent, in its individual capacity, may in good faith buy, sell, own, hold and deal in any of the Bonds issued hereunder, or any bonds issued under the Company Mortgage, and may join in any action which any Owner may be entitled to take with like effect as if it did not act in any capacity hereunder. The Trustee, the Registrar, the Insurer, the Agent Bank (or the Agent Obligor on an Alternate Liquidity Facility, as the case may be), each Bank (or each Obligor on an Alternate Liquidity Facility, as the case may be) or the Remarketing Agent, in its individual capacity, either as principal or agent, may also engage in or be interested in any financial or other transaction with the Issuer or the Company, and may act as depositary, trustee or agent for any committee or body of Owners secured hereby or other obligations of the Issuer or the Company as freely as if it did not act in any capacity hereunder.

Section 10.09. Several Capacities. Anything in this Indenture to the contrary notwithstanding, the same entity may serve hereunder as the Trustee, the Registrar and the Remarketing Agent and in any other combination of such capacities, to the extent permitted by law.

Section 10.10. Resignation of Trustee. The Trustee may resign and be discharged of the trusts created by this Indenture by executing any instrument in writing resigning such trust and specifying the date when such resignation shall take effect, and filing the same with the Issuer, the Company, the Insurer, the Registrar, the Remarketing Agent and the Agent Bank (or the Agent Obligor on an Alternate Liquidity Facility, as the case may be) not less than 45 days before the date specified in such instrument when such resignation shall take effect, and by giving notice of such resignation by Mail, not less than three weeks prior to such resignation date, to all Owners of Bonds. Such resignation shall take effect on the day specified in such instrument and notice, unless previously a successor Trustee shall have been appointed as hereinafter provided, in which event such resignation shall take effect immediately upon the appointment of such successor Trustee, but in no event shall a resignation take effect earlier than the date on which a successor Trustee has been appointed and has accepted its appointment and has received transfer of the rights of the Trustee under the Standby Purchase Agreement (or the Alternate Liquidity Facility, as the case may be) then in effect.

Section 10.11. Removal of Trustee. (a) With the prior written consent of the Agent Bank, or the Agent Obligor on an Alternate Liquidity Facility, as the case may be (which consent, if unreasonably withheld, shall not be required), the Trustee may be removed at any time by filing with the Trustee so removed, and with the Issuer, the Company, the Insurer, the Registrar, the Remarketing Agent and the Agent Bank (or the Agent Obligor on an Alternate Liquidity Facility, as the case may be), an instrument or instruments in writing executed by (i) the Insurer, if no Insurer Default shall have occurred and be continuing, or (ii) the Owners of not less than a majority in principal amount of the Bonds then Outstanding and, if no Insurer Default shall have occurred and be continuing, the Insurer. Such instrument or instruments shall also either (x) appoint a successor or (y) consent to the appointment by the Issuer of a successor and be accompanied by an instrument of appointment by the Issuer of such successor. In no event shall a removal take effect earlier than the date on which a successor Trustee has been appointed and has accepted its appointment and has received transfer of the rights of the Trustee under the Standby Purchase Agreement (or the Alternate Liquidity Facility, as the case may be) then in effect.

(b) The Issuer may, and at the request of the Company will, remove the Trustee if (i) the Trustee fails to comply with Section 10.13 hereof, (ii) the Trustee is adjudged a bankrupt or an insolvent, (iii) a receiver or other public officer takes charge of the Trustee or its property or (iv) the Trustee otherwise becomes incapable of acting.

Section 10.12. Appointment of Successor Trustee. In case at any time the Trustee shall be removed, or be dissolved, or if its property or affairs shall be taken under the control of any state or federal court or administrative body because of insolvency or bankruptcy, or for any other reason, then a vacancy shall forthwith and ipso facto exist in the office of Trustee and a successor may be appointed, and in case at any time the Trustee shall resign, then a successor may be appointed by filing with the Issuer, the Company, the Registrar, the Remarketing Agent and the Agent Bank (or the Agent Obligor on an Alternate Liquidity Facility, as the case may be) an instrument in writing executed by (a) the Insurer, if no Insurer Default shall have occurred and be continuing, or (b) the Owners of not less than a majority in principal amount of Bonds then Outstanding and, if no Insurer Default shall have occurred and be continuing, the Insurer. In the case of the removal of the Trustee, the prior written consent of the Agent Bank (or the Agent Obligor on an Alternate Liquidity Facility, as the case may be) shall be required, unless such consent is unreasonably withheld. Copies of such instrument shall be promptly delivered by the Issuer to the predecessor Trustee and to the Trustee so appointed.

Until a successor Trustee shall be appointed by the Owners as herein authorized, the Issuer, by an instrument authorized by the governing body of the Issuer, shall appoint a successor Trustee acceptable to the Company and the Insurer. After any appointment by the Issuer, it shall cause notice of such appointment to be given to the Remarketing Agent, the Registrar and the Agent Bank (or the Agent Obligor on an Alternate Liquidity Facility, as the case may be) and to be given by Mail to all Owners of Bonds. Any new Trustee so appointed by the Issuer shall immediately and without further act be superseded by a Trustee appointed by the Owners in the manner above provided.

Section 10.13. Qualifications of Trustee. Every successor Trustee (a) shall be a national or state bank or trust company (other than a Bank or an Obligor on an Alternate Liquidity Facility, as the case may be) that is authorized by law to perform all the duties imposed upon it by this Indenture, (b) shall have a combined capital stock, surplus and retained earnings of at least \$75,000,000, (c) shall be permitted under the Act to perform the duties of Trustee, (d) shall agree with each Bank (or each Obligor on an Alternate Liquidity Facility, as the case may be) and the Agent Bank (or the Agent Obligor on an Alternate Liquidity Facility, as the case may be), to act as agent for such Bank (or such Obligor on an Alternate Liquidity Facility, as the case may be) and the Agent Bank (or the Agent Obligor on an Alternate Liquidity Facility, as the case may be), with respect to Unremarketed Bonds, (e) shall be acceptable to the Insurer, and (f) so long as the Bonds are Outstanding and subject to optional or mandatory purchase pursuant to the provisions of this Indenture and if no book-entry system for the Bonds is in effect, shall have an office located in New York, New York, if there can be located, with reasonable effort, such an institution willing and able to accept the trust on reasonable and customary terms.

Section 10.14. Judicial Appointment of Successor Trustee. In case at any time the Trustee shall resign and no appointment of a successor Trustee shall be made pursuant to the foregoing provisions of this Article X prior to the date specified in the notice of resignation as the date when such resignation is to take effect, the resigning Trustee may forthwith apply to a court of competent jurisdiction for the appointment of a successor Trustee. If no appointment of a successor Trustee shall be made pursuant to the foregoing provisions of this Article X within six months after a vacancy shall have occurred in the office of Trustee, any Owner or the Agent Bank (or the Agent Obligor on an Alternate Liquidity Facility, as the case may be) may apply to any court of competent jurisdiction to appoint a successor Trustee. Such court may thereupon, after such notice, if any, as it may deem proper and prescribe, appoint a successor Trustee.

Section 10.15. Acceptance of Trusts by Successor Trustee. Any successor Trustee appointed hereunder shall execute, acknowledge and deliver to the Issuer an instrument accepting such appointment hereunder, and thereupon such successor Trustee, without any further act, deed or conveyance, shall become duly vested with all the estates, property rights, powers, trusts, duties and obligations of its predecessor in the trust hereunder, with like effect as if originally named Trustee herein. Upon request of such Trustee, such predecessor Trustee and the Issuer shall execute and deliver an instrument transferring to such successor Trustee all the estates, property, rights, powers and trusts hereunder of such predecessor Trustee and, subject to the provisions of Section 10.04 hereof, such predecessor Trustee shall pay over to the successor Trustee all moneys and other assets at the time held by it hereunder.

Section 10.16. Successor by Merger or Consolidation. Any corporation into which any Trustee hereunder may be merged or converted or with which it may be consolidated, or any corporation resulting from any merger or consolidation to which any Trustee hereunder shall be a party, or to which all or substantially all of its corporate trust business shall be transferred, shall be the successor Trustee under this Indenture, without the execution or filing of any paper or any further act on the part of the parties hereto, anything in this Indenture to the contrary notwithstanding; *provided, however*, if such successor corporation is not a trust

company or state or national bank that has trust powers, the Trustee shall resign from the trusts hereby created prior to such merger, transfer or consolidation or the successor corporation shall resign from such trusts as soon as practicable after such merger, transfer or consolidation.

Section 10.17. Standard of Care. Notwithstanding any other provisions of this Article X, the Trustee shall, during the existence of an Event of Default of which the Trustee has notice as provided in Section 10.05 hereof, exercise such of the rights and powers vested in it by this Indenture and use the same degree of skill and care in their exercise as a prudent person would use and exercise under the circumstances in the conduct of his own affairs.

Section 10.18. Intervention in Litigation of the Issuer. In any judicial proceeding to which the Issuer is a party and which in the opinion of the Trustee and its counsel has a substantial bearing on the interests of the Owners of the Bonds, the Trustee may and shall, upon receipt of indemnity satisfactory to it (except against gross negligence or willful misconduct) at the written request of the Owners of at least 25% in principal amount of the Bonds then Outstanding and if permitted by the court having jurisdiction in the premises, intervene in such judicial proceeding.

Section 10.19. Remarketing Agent. The Company has covenanted in the Agreement that at all times while any of the Bonds are Outstanding and are subject to optional or mandatory purchase pursuant to the provisions hereof, there shall be a Remarketing Agent for the Bonds appointed and acting pursuant to the provisions of this Indenture. The Remarketing Agent shall designate its Principal Office to the Trustee, the Company, the Registrar, the Issuer and the Agent Bank (or the Agent Obligor on an Alternate Liquidity Facility, as the case may be).

The Issuer shall cooperate with the Trustee, the Registrar, each Bank (or each Obligor on an Alternate Liquidity Facility, as the case may be), the Agent Bank (or the Agent Obligor on an Alternate Liquidity Facility, as the case may be) and the Company to cause the necessary arrangements to be made and to be thereafter continued whereby funds from the sources specified herein and in the Agreement will be made available for the purchase of Bonds presented at the Delivery Office of the Trustee and whereby Bonds, executed by the Issuer and authenticated by the Trustee, shall be made available to the Remarketing Agent to the extent necessary for delivery pursuant to Section 3.06 hereof.

Section 10.20. Qualifications of Remarketing Agent. The Remarketing Agent shall have a capitalization of at least \$50,000,000 and be authorized by law to perform all the duties contemplated by this Indenture to be performed by the Remarketing Agent and agree to take all actions required of it under the DTC Representation Letter while a book-entry system is in effect for the Bonds. The Remarketing Agent may at any time resign and be discharged of the duties and obligations contemplated by this Indenture by giving at least 30 days' notice to the Issuer, the Agent Bank (or the Agent Obligor on an Alternate Liquidity Facility, as the case may be), the Company, the Registrar and the Trustee. The Remarketing Agent may be removed at any time, at the direction of the Company with the written consent of the Agent Bank (or the Agent Obligor on an Alternate Liquidity Facility, as the case may be) and the

Issuer, by an instrument, signed by the Issuer, filed with the Remarketing Agent, the Agent Bank (or the Agent Obligor on an Alternate Liquidity Facility, as the case may be), the Registrar and the Trustee at least 30 days prior to the effective date of such removal. Upon the resignation or removal of the Remarketing Agent, the Company may appoint a new Remarketing Agent.

In the event of the resignation or removal of the Remarketing Agent, the Remarketing Agent shall pay over, assign and deliver any moneys held by it in such capacity to its successor or, if there be no successor, to the Trustee.

In the event that the Company shall fail to appoint a Remarketing Agent hereunder, or in the event that the Remarketing Agent shall resign or be removed, or be dissolved, or if the property or affairs of the Remarketing Agent shall be taken under the control of any state or federal court or administrative body because of bankruptcy or insolvency, or for any other reason, and the Company shall not have appointed a successor Remarketing Agent, the Trustee, notwithstanding the provisions of the first paragraph of this Section 10.20, shall ipso facto be deemed to be the Remarketing Agent for all purposes of this Indenture until the appointment by the Company of the Remarketing Agent or successor Remarketing Agent, as the case may be; *provided, however*, that the Trustee, in its capacity as Remarketing Agent, shall not be required to sell Bonds or determine the interest rate on the Bonds pursuant to Section 2.02 hereof.

Section 10.21. Registrar. Pursuant to the provisions hereof, the Trustee is initial Registrar for the Bonds. By its execution of this Indenture, the Trustee signifies its acceptance of the duties of Registrar hereunder. Any successor Registrar shall designate to the Issuer, the Company, the Remarketing Agent and the Agent Bank (or the Agent Obligor on an Alternate Liquidity Facility, as the case may be) its office where the registration books shall be kept and signify its acceptance of the duties imposed upon it hereunder by a written instrument of acceptance delivered to the Issuer and the Trustee under which such Registrar will agree, particularly, to keep such books and records as shall be consistent with prudent industry practice and to make such books and records available for inspection by the Issuer, the Trustee, the Insurer, the Company, each Bank (or each Obligor on an Alternate Liquidity Facility, as the case may be) and the Remarketing Agent at all reasonable times. The Registrar shall maintain in New York City an office for the exchange, registration and registration of transfer of the Bonds.

The Issuer shall cooperate with the Trustee, the Remarketing Agent and the Company to cause the necessary arrangements to be made and to be thereafter continued whereby Bonds, executed by the Issuer and authenticated by the Trustee, shall be made available for exchange, registration and registration of transfer at the Principal Office of the Registrar. The Issuer shall cooperate with the Trustee, the Registrar, the Company and the Remarketing Agent to cause the necessary arrangements to be made and thereafter continued whereby the Trustee and the Remarketing Agent shall be furnished such records and other information, at such times, as shall be required to enable the Trustee and the Remarketing Agent to perform the duties and obligations imposed upon them hereunder.

Section 10.22. Qualifications of Registrar; Resignation; Removal. The Registrar shall be a corporation duly organized under the laws of the United States of America or any state or territory thereof, having a combined capital, surplus and retained earnings of at least \$15,000,000 and authorized by law to perform all the duties imposed upon it by this Indenture. The Registrar may at any time resign and be discharged of the duties and obligations created by this Indenture by giving at least 45 days' notice to the Issuer, the Trustee, the Agent Bank (or the Agent Obligor on an Alternate Liquidity Facility, as the case may be), the Remarketing Agent and the Company. The Registrar may be removed at any time, at the direction of the Company, by an instrument, signed by the Issuer, filed with the Registrar, the Trustee, the Agent Bank (or the Agent Obligor on an Alternate Liquidity Facility, as the case may be) and the Remarketing Agent. Upon the resignation or removal of the Registrar, the Issuer, at the direction of the Company, shall appoint a new Registrar.

In the event of the resignation or removal of the Registrar, the Registrar shall deliver any Bonds held by it in such capacity to its successor or, if there be no successor, to the Trustee.

In the event that the Issuer shall fail to appoint a Registrar hereunder, or in the event that the Registrar shall resign or be removed, or be dissolved, or if the property or affairs of the Registrar shall be taken under the control of any state or federal court or administrative body because of bankruptcy or insolvency, or for any other reason, and the Issuer shall not have appointed its successor as Registrar, the Trustee shall ipso facto be deemed to be the Registrar for all purposes of this Indenture until the appointment by the Issuer of the Registrar or successor Registrar, as the case may be.

Section 10.23. Paying Agents. The Company, with the written approval of the Trustee and the Issuer, may appoint and at all times have one or more paying agents in such place or places as the Company may designate, for the payment of the principal of, and premium, if any, and the interest on, the Bonds. Each such paying agent shall have the power to hold moneys in trust. It shall be the duty of the Trustee to make such arrangements with any such paying agent as may be necessary to assure, to the extent of the moneys held by the Trustee for such payment, the prompt payment of the principal of, and premium, if any, and interest on, the Bonds presented at either place of payment. The Paying Agent initially appointed hereunder is the Delivery Office of the Trustee.

Section 10.24. Additional Duties of Trustee. The Trustee shall:

(a) hold all Bonds delivered to it hereunder for the account of and for the benefit of the respective Owners which shall have so delivered such Bonds until moneys representing the purchase price of such Bonds shall have been delivered to or for the account of or to the order of such Owners;

(b) hold all moneys delivered to it hereunder for the purchase of Bonds in a separate account for the account of and for the benefit of the person or entity which shall have so delivered such moneys until the Bonds purchased with such moneys shall have been delivered to or for the account of such person or entity;

(c) keep such books and records with respect to the Bonds as shall be consistent with prudent industry practice and to make such books and records available for inspection by the Issuer, the Trustee, the Company and the Remarketing Agent at all reasonable times;

(d) as long as a book-entry system is in effect for the Bonds, the Trustee will comply with the DTC Representation Letter and perform all duties required of it thereunder; and

(e) The Trustee shall give notice by Mail to the Remarketing Agent and to the Owners of the Bonds at their addresses shown on the registration books kept by the Registrar, not less than fifteen days prior to the date on which a Substitute Standby Purchase Agreement (or an Alternate Liquidity Facility, as the case may be) becomes effective, which notice shall: (i) describe generally such Substitute Standby Purchase Agreement (or such Alternate Liquidity Facility, as the case may be), (ii) state the effective date of such Substitute Standby Purchase Agreement (or such Alternate Liquidity Facility, as the case may be) and (iii) state the name of the provider of such Substitute Standby Purchase Agreement (or such Alternate Liquidity Facility, as the case may be).

ARTICLE XI

REFERENCES TO BANK OR OBLIGOR ON AN ALTERNATE LIQUIDITY FACILITY; EXECUTION OF INSTRUMENTS BY OWNERS AND PROOF OF OWNERSHIP OF BONDS

Section 11.01. *References to Bank or Obligor on an Alternate Liquidity Facility.* At any time when there is no Standby Purchase Agreement or Alternate Liquidity Facility in effect, references to any Bank (or any Obligor on an Alternate Liquidity Facility, as the case may be) or Agent Bank (or the Agent Obligor on an Alternate Liquidity Facility, as the case may be) shall be ineffective, except with respect to amounts payable to any Bank (or any Obligor on an Alternate Liquidity Facility, as the case may be) which have not been paid. If such amounts have not been paid, the Agent Bank (or the Agent Obligor on an Alternate Liquidity Facility, as the case may be) shall be entitled to all notices hereunder.

If an Event of Default shall have occurred due to the wrongful failure by a Bank (or an Obligor on an Alternate Liquidity Facility, as the case may be) or the Agent Bank (or the Agent Obligor on an Alternate Liquidity Facility, as the case may be) to fulfill its obligations under the Standby Purchase Agreement or an Alternate Liquidity Facility, as the case may be, so long as such failure continues, the rights of such Bank (or such Obligor on an Alternate Liquidity Facility, as the case may be) or the Agent Bank (or the Agent Obligor on an Alternate Liquidity Facility, as the case may be) hereunder relating to actions taken by the Trustee with respect to such Event of Default shall be void.

Section 11.02. *Execution of Instruments; Proof of Ownership.* Any request, direction, consent or other instrument in writing required or permitted by this Indenture to be signed or

executed by the Owners or on their behalf by an attorney-in-fact may be in any number of concurrent instruments of similar tenor and may be signed or executed by the Owners in person or by an agent or attorney-in-fact appointed by an instrument in writing or as provided in the Bonds. Proof of the execution of any such instrument and of the ownership of Bonds shall be sufficient for any purpose of this Indenture and shall be conclusive in favor of the Trustee with regard to any action taken by it under such instrument if made in the following manner:

(a) The fact and date of the execution by any person of any such instrument may be proved by the certificate of any officer in any jurisdiction who, by the laws thereof, has power to take acknowledgments within such jurisdiction, to the effect that the person signing such instrument acknowledged before him the execution thereof, or by an affidavit of a witness to such execution.

(b) The ownership of Bonds shall be proved by the registration books kept under the provisions of Section 2.06 hereof.

Nothing contained in this Article XI shall be construed as limiting the Trustee to such proof, it being intended that the Trustee may accept any other evidence of matters herein stated which it may deem sufficient. Any request by or consent of any Owner shall bind every future Owner of the same Bond or any Bond or Bonds issued in lieu thereof in respect of anything done by the Trustee or the Issuer in pursuance of such request or consent.

ARTICLE XII

MODIFICATION OF THIS INDENTURE AND THE AGREEMENT

Section 12.01. *Supplemental Indentures without Owner Consent.* The Issuer and the Trustee may, from time to time and at any time, without the consent of the Owners, enter into a Supplemental Indenture as follows:

(a) to cure any formal defect, omission, inconsistency or ambiguity in this Indenture;

(b) to add to the covenants and agreements of the Issuer contained in this Indenture or of the Company or of the Insurer or of each Bank (or each Obligor on an Alternate Liquidity Facility, as the case may be) or the Agent Bank (or the Agent Obligor on an Alternate Liquidity Facility, as the case may be) contained in any document, other covenants or agreements thereafter to be observed, or to assign or pledge additional security for any of the Bonds, or to surrender any right or power reserved or conferred upon the Issuer or the Company, which shall not materially adversely affect the interests of the Owners of the Bonds;

(c) to confirm, as further assurance, any pledge of or lien on the Revenues or any other moneys, securities or funds subject or to be subjected to the lien of this Indenture;

(d) to comply with the requirements of the Trust Indenture Act of 1939, as from time to time amended;

(e) to modify, alter, amend or supplement this Indenture or any Supplemental Indenture in any other respect which in the judgment of the Trustee is not materially adverse to the Owners of the Bonds; *provided, however,* that any such modification, alteration, amendment or supplement pursuant to this Section 12.01(e) shall not take effect until the Insurer (unless an Insurer Default shall have occurred and be continuing) and the Agent Bank or the Agent Obligor on an Alternate Liquidity Facility, as the case may be, shall have consented in writing to such modification, alteration, amendment or supplement; *provided further* that in determining whether any such modification, alteration, amendment or supplement is materially adverse to the Owners of the Bonds, the Trustee shall consider the effect on the Owners as if there were no Insurance Policy with respect to the Bonds;

(f) to implement a conversion of the rate on the Bonds or to evidence or give effect to or facilitate the delivery and administration under this Indenture of an Alternate Liquidity Facility or a Substitute Standby Purchase Agreement;

(g) to provide for a depository to accept Bonds in lieu of the Trustee;

(h) to modify or eliminate the book-entry registration system for any of the Bonds;

(i) to provide for uncertificated Bonds or for the issuance of coupons and bearer Bonds or Bonds registered only as to principal, but only to the extent that such would not adversely affect the Tax-Exempt status of the Bonds;

(j) to secure or maintain ratings on the Bonds from Moody's and/or S&P in both the highest short-term or commercial paper debt Rating Category and also in either of the two highest long-term debt Rating Categories of the applicable rating agency or agencies, which changes will not restrict, limit or reduce the obligation of the Issuer to pay the principal of and premium, if any, and interest on the Bonds as provided in this Indenture or otherwise adversely affect the Owners under this Indenture;

(k) to provide demand purchase obligations to cause the Bonds to be authorized purchases for investment companies;

(l) to provide for any Substitute Collateral and the release of any First Mortgage Bonds;

(m) to provide for the appointment of a successor Trustee, Registrar or Paying Agent;

(n) to provide the procedures required to permit any Owner to separate the right to receive interest on the Bonds from the right to receive principal thereof and to sell or dispose of such right as contemplated by Section 1286 of the Code;

(o) to provide for any additional procedures, covenants or agreements necessary to maintain the Tax-Exempt status of the Bonds;

(p) to modify, alter, amend or supplement this Indenture in any other respect (which in the judgment of the Trustee is not materially adverse to the Owners of the Bonds), including amendments which would otherwise be described in Section 12.01 hereof, if the effective date of such Supplemental Indenture or amendment is a date on which all of the Bonds affected thereby are subject to mandatory purchase pursuant to Section 3.02 hereof and are so purchased; and

(q) to provide for the replacement of the Insurer or for an additional Insurer following the occurrence of an Insurer Default or to provide for an additional Insurer following the withdrawal or suspension or reduction below the Rating Category of AAA (or its equivalent rating) by S&P and Aaa (or its equivalent rating) by Moody's of the long-term ratings of the Insurer provided that the insurance policy provided by the replacement or additional Insurer would result in a long-term rating on the Bonds equal to the Rating Category of AAA (or its equivalent rating) by S&P and Aaa (or its equivalent rating) by Moody's.

Before the Issuer and the Trustee shall enter into any Supplemental Indenture pursuant to this Section 12.01, there shall have been delivered to the Trustee, the Company, the Insurer and the Agent Bank (or the Agent Obligor on an Alternate Liquidity Facility, as the case may be) an opinion of Bond Counsel stating that such Supplemental Indenture is authorized or permitted by this Indenture and will, upon the execution and delivery thereof, be valid and binding upon the Issuer in accordance with its terms, and will not impair the validity under the Act of the Bonds or adversely affect the Tax-Exempt status of the Bonds.

The Trustee shall provide written notice of any Supplemental Indenture to the Insurer, the Agent Bank (or Agent Obligor on an Alternate Liquidity Facility, as the case may be), Moody's, S&P and the Owners of all Bonds then Outstanding at least 30 days prior to the effective date of such Supplemental Indenture. Such notice shall state the effective date of such Supplemental Indenture and shall briefly describe the nature of such Supplemental Indenture and shall state that a copy thereof is on file at the Principal Office of the Trustee for inspection by the parties mentioned in the preceding sentence.

Section 12.02. Supplemental Indentures Requiring Owner Consent. (a) Except for any Supplemental Indenture entered into pursuant to Section 12.01 hereof, subject to the terms and provisions contained in this Section 12.02 and not otherwise, the Insurer (unless an Insurer Default shall have occurred and be continuing), together with the Owners of not less than 60%

in aggregate principal amount of the Bonds then Outstanding shall have the right from time to time to consent to and approve the execution and delivery by the Issuer and the Trustee of any Supplemental Indenture deemed necessary or desirable by the Issuer for the purposes of modifying, altering, amending, supplementing or rescinding, in any particular, any of the terms or provisions contained in this Indenture; *provided, however*, that, unless approved in writing by the Insurer (unless an Insurer Default shall have occurred and be continuing) and the Owners of all the Bonds then affected thereby, nothing herein contained shall permit, or be construed as permitting, (i) a change in the times, amounts or currency of payment of the principal of, or premium, if any, or interest on, any Outstanding Bond, a change in the terms of the purchase thereof by the Trustee, or a reduction in the principal amount or redemption price of any Outstanding Bond or the rate of interest thereon, or (ii) the creation of a claim or lien upon, or a pledge of, the Revenues ranking prior to or on a parity with the claim, lien or pledge created by this Indenture (except as referred to in Section 10.04 hereof), or (iii) a reduction in the aggregate principal amount of Bonds the consent of the Owners of which is required for any such Supplemental Indenture or which is required, under Section 12.06 hereof, for any modification, alteration, amendment or supplement to the Agreement.

(b) If at any time the Issuer shall request the Trustee to enter into any Supplemental Indenture for any of the purposes of this Section 12.02, the Trustee shall cause notice of the proposed Supplemental Indenture to be given by Mail to the Insurer, Moody's, S&P and all Owners of Outstanding Bonds. Such notice shall briefly set forth the nature of the proposed Supplemental Indenture and shall state that a copy thereof is on file at the Principal Office of the Trustee for inspection by all Owners, Moody's, S&P and the Insurer.

(c) Within two years after the date of the mailing of such notice, the Issuer and the Trustee may enter into such Supplemental Indenture in substantially the form described in such notice, but only if there shall have first been delivered to the Trustee (i) the required consents, in writing, of the Owners and the Insurer and (ii) an opinion of Bond Counsel stating that such Supplemental Indenture is authorized or permitted by this Indenture and the Act, complies with their respective terms and, upon the execution and delivery thereof, will be valid and binding upon the Issuer in accordance with its terms and will not adversely affect the Tax-Exempt status of the Bonds.

(d) If Owners of not less than the percentage of Bonds required by this Section 12.02 shall have consented to and approved the execution and delivery of a Supplemental Indenture as herein provided, no Owner shall have any right to object to the execution and delivery of such Supplemental Indenture, or to object to any of the terms and provisions contained therein or the operation thereof, or in any manner to question the propriety of the execution and delivery thereof, or to enjoin or restrain the Issuer or the Trustee from executing and delivering the same or from taking any action pursuant to the provisions thereof.

(e) Subject to the terms and provisions contained in this Section 12.02(e), the Owners of all the Bonds at any time Outstanding shall have the right, and the Issuer and the Trustee by their execution and delivery of this Indenture hereby expressly confer upon such Owners the right, to modify, alter, amend or supplement this Indenture in any respect, including without limitation in respect of the matters described in clauses (i), (ii) and (iii) of

the proviso contained in Section 12.02(a) hereof, by delivering to the Issuer, the Insurer, the Agent Bank (or the Agent Obligor on an Alternate Liquidity Facility, as the case may be), the Trustee and the Company a written instrument or instruments, executed by or on behalf of such Owners, containing a form of Supplemental Indenture which sets forth such modifications, alterations, amendments and supplements, and, upon the expiration of a 30 day period commencing on the date of such delivery during which no notice of objection shall have been delivered by the Issuer or the Trustee to the Agent Bank (or the Agent Obligor on an Alternate Liquidity Facility, as the case may be) and such Owners at an address specified in such written instrument, such Supplemental Indenture shall be deemed to have been approved and confirmed by the Issuer and the Trustee, to the same extent as if actually executed and delivered by the Issuer and the Trustee, and such Supplemental Indenture shall thereupon become and be for all purposes in full force and effect without further action by the Issuer or the Trustee. The foregoing provisions are, however, subject to the following conditions:

(i) no such Supplemental Indenture shall in any way affect the limited nature of the obligations of the Issuer under this Indenture as set forth in Section 2.08 and Section 5.10 hereof or adversely affect any of its rights hereunder;

(ii) no such Supplemental Indenture shall be to the prejudice of the Registrar or the Remarketing Agent and such Supplemental Indenture shall have been consented to by the Agent Bank (or the Agent Obligor on an Alternate Liquidity Facility, as the case may be) and the Company as required by Section 12.04 hereof; and

(iii) there shall have been delivered to the Issuer, the Trustee, the Company and the Agent Bank (or the Agent Obligor on an Alternate Liquidity Facility, as the case may be) an opinion of Bond Counsel stating that such Supplemental Indenture is authorized or permitted by this Indenture and the Act, complies with their respective terms, will, upon the expiration of the aforesaid 30 day period, be valid and binding upon the Issuer in accordance with its terms and will not adversely affect the Tax-Exempt status of the Bonds.

Section 12.03. Effect of Supplemental Indenture. Upon the execution and delivery of any Supplemental Indenture pursuant to the provisions of this Article XII, this Indenture shall be, and be deemed to be, modified and amended in accordance therewith, and the respective rights, duties and obligations under this Indenture shall thereafter be determined, exercised and enforced under this Indenture subject in all respects to such modifications and amendments.

Section 12.04. Consent of the Company and the Agent Bank or the Agent Obligor on an Alternate Liquidity Facility Required; Consent of Insurer. (a) No Supplemental Indenture under this Article XII and no amendment of the Agreement shall become effective unless the Company and the Agent Bank (or the Agent Obligor on an Alternate Liquidity Facility, as the case may be) shall have consented thereto in writing.

(b) Any provision of this Indenture expressly recognizing or granting rights in or to the Insurer may not be amended in any manner which affects the rights of the Insurer hereunder without the prior written consent of the Insurer.

Section 12.05. Amendment of Agreement without Owner Consent. Without the consent of or notice to the Owners, the Issuer may, with the consent of the Insurer (unless an Insurer Default shall have occurred and be continuing) modify, alter, amend or supplement the Agreement, and the Trustee may consent thereto, as may be required:

- (a) by the provisions of the Agreement and this Indenture;
- (b) for the purpose of curing any formal defect, omission, inconsistency or ambiguity therein;
- (c) in connection with any other change therein which in the judgment of the Trustee is not materially adverse to the Owners; *provided however*, that any such modification, alteration, amendment or supplement pursuant to this Section 12.05(c) shall not take effect until the Insurer (unless an Insurer Default shall have occurred and be continuing) and the Agent Bank or the Agent Obligor on an Alternate Liquidity Facility, as the case may be, shall have consented in writing to such modification, alteration, amendment or supplement; *provided further* that in determining whether any such modification, alteration, amendment or supplement is materially adverse to the Owners of the Bonds, the Trustee shall consider the effect on the Owners as if there were no Insurance Policy with respect to the Bonds;
- (d) to secure or maintain ratings on the Bonds from Moody's and/or S&P in both the highest short-term or commercial paper debt Rating Category and also in either of the two highest long-term debt Rating Categories of the applicable rating agency or agencies, which changes will not restrict, limit or reduce the obligation of the Issuer to pay the principal of and premium, if any, and interest on the Bonds as provided in this Indenture or otherwise materially adversely affect the Owners under this Indenture;
- (e) in connection with the delivery and substitution of any Substitute Collateral and the release of any First Mortgage Bonds;
- (f) to add to the covenants and agreements of the Issuer contained in the Agreement or of the Company or of the Insurer or of each Bank (or each Obligor on an Alternate Liquidity Facility, as the case may be) or the Agent Bank (or the Agent Obligor on an Alternate Liquidity Facility, as the case may be) contained in any document, other covenants or agreements thereafter to be observed, or to assign or pledge additional security for any of the Bonds, or to surrender any right or power reserved or conferred upon the Issuer or the Company, which shall not materially adversely affect the interest of the Owners of the Bonds;
- (g) to provide demand purchase obligations to cause the Bonds to be authorized purchases for investment companies;

(h) to provide the procedures required to permit any Owner to separate the right to receive interest on the Bonds from the right to receive principal thereof and to sell or dispose of such right as contemplated by Section 1286 of the Code;

(i) to provide for any additional procedures, covenants or agreements necessary to maintain the Tax-Exempt status of interest on the Bonds;

(j) to modify, alter, amend or supplement the Agreement in any other respect, (which in the judgment of the Trustee is not materially adverse to the Owners of the Bonds) including amendments which would otherwise be described in Section 12.05 hereof, if the effective date of such supplement or amendment is a date on which all of the Bonds affected thereby are subject to mandatory purchase pursuant to Section 3.02 hereof and are so purchased; and

(k) to provide for the replacement of the Insurer or for an additional Insurer following the occurrence of an Insurer Default or to provide for an additional Insurer following the withdrawal or suspension or reduction below the Rating Category of AAA (or its equivalent rating) by S&P and Aaa (or its equivalent rating) by Moody's of the long-term ratings of the Insurer provided that the insurance policy provided by the replacement or additional Insurer would result in a long-term rating on the Bonds equal to the Rating Category of AAA (or its equivalent rating) by S&P and Aaa (or its equivalent rating) by Moody's.

A revision of *Exhibit A* to the Agreement shall not be deemed a modification, alteration, amendment or supplement to the Agreement, or to this Indenture, for any purpose of this Indenture.

Before the Issuer shall enter into, and the Trustee shall consent to, any modification, alteration, amendment or supplement to the Agreement pursuant to this Section 12.05, (a) the Trustee shall cause notice of such proposed modification, alteration, amendment or supplement to be provided to the Insurer, Moody's and S&P and stating that a copy thereof is on file at the office of the Trustee for inspection by the Insurer, Moody's and S&P and (b) there shall have been delivered to the Issuer, the Insurer and the Trustee an opinion of Bond Counsel stating that such modification, alteration, amendment or supplement is authorized or permitted by the Agreement or this Indenture and the Act, complies with their respective terms, will, upon the execution and delivery thereof, be valid and binding upon the Issuer in accordance with its terms and will not adversely affect the Tax-Exempt status of the Bonds.

Section 12.06. Amendment of Agreement Requiring Owner Consent. Except in the case of modifications, alterations, amendments or supplements referred to in Section 12.05 hereof, the Issuer shall not enter into, and the Trustee shall not consent to, any amendment, change or modification of the Agreement without the written approval or consent of the Agent Bank (or the Agent Obligor on an Alternate Liquidity Facility, as the case may be), the Insurer (unless an Insurer Default shall have occurred and be continuing) and the Owners of not less than 60% in aggregate principal amount of the Bonds then Outstanding, given and procured as provided in Section 12.02 hereof; *provided, however*, that, unless approved in writing by the

Owners of all Bonds affected thereby, nothing herein contained shall permit, or be construed as permitting, a change in the obligations of the Company under Section 4.01 and Section 4.02 of the Agreement or the nature of the obligations of the Company on the First Mortgage Bonds as provided in Section 4.04 of the Agreement. If at any time the Issuer or the Company shall request the consent of the Trustee to any such proposed modification, alteration, amendment or supplement permitted under this Section 12.06, the Trustee shall cause notice thereof to be given in the same manner as provided by Section 12.02 hereof with respect to Supplemental Indentures. Such notice shall briefly set forth the nature of such proposed modification, alteration, amendment or supplement and shall state that copies of the instrument embodying the same are on file at the Principal Office of the Trustee for inspection by Moody's, S&P and all Owners. The Issuer may enter into, and the Trustee may consent to, any such proposed modification, alteration, amendment or supplement subject to the same conditions and with the same effect as provided in Section 12.02 hereof with respect to Supplemental Indentures.

Before the Issuer shall enter into, and the Trustee shall consent to, any modification, alteration, amendment or supplement to the Agreement pursuant to this Section 12.06, there shall have been delivered to the Issuer, the Agent Bank (or the Agent Obligor on an Alternate Liquidity Facility, as the case may be), the Insurer and the Trustee an opinion of Bond Counsel stating that such modification, alteration, amendment or supplement is authorized or permitted by the Agreement or this Indenture and the Act, complies with their respective terms, will, upon the execution and delivery thereof, be valid and binding upon the Issuer in accordance with its terms and will not adversely affect the Tax-Exempt status of the Bonds.

ARTICLE XIII

MISCELLANEOUS

Section 13.01. Successors of the Issuer. In the event of the dissolution of the Issuer, all the covenants, stipulations, promises and agreements in this Indenture contained, by or on behalf of, or for the benefit of, the Issuer, shall bind or inure to the benefit of the successors of the Issuer from time to time and any entity, officer, board, commission, agency or instrumentality to whom or to which any power or duty of the Issuer shall be transferred.

Section 13.02. Parties in Interest. Except as herein otherwise specifically provided, nothing in this Indenture expressed or implied is intended or shall be construed to confer upon any person, firm or corporation other than the Issuer, the Remarketing Agent, the Registrar, the Company, the Bank (or the Obligor on an Alternate Liquidity Facility, as the case may be), the Agent Bank (or the Agent Obligor on an Alternate Liquidity Facility, as the case may be), the Insurer, the Trustee and the Owners of Bonds any right, remedy or claim under or by reason of this Indenture, this Indenture being intended to be for the sole and exclusive benefit of the Issuer, the Remarketing Agent, the Registrar, the Company, the Bank (or the Obligor on an Alternate Liquidity Facility, as the case may be), the Insurer, the Trustee and the Owners of Bonds. The Trustee shall have no fiduciary duty to any entity other than the Owner of any Bond as such.

Section 13.03. Severability. In case any one or more of the provisions of this Indenture or of the Agreement or of the Bonds shall, for any reason, be held to be illegal or invalid, such illegality or invalidity shall not affect any other provisions of this Indenture, the Agreement, or of the Bonds, and this Indenture, the Agreement and the Bonds shall be construed and enforced as if such illegal or invalid provisions had not been contained herein or therein.

Section 13.04. No Personal Liability of Issuer Officials. No representation, warranty, covenant or agreement contained in the Bonds or in this Indenture or in any of the documents or certificates related thereto shall be deemed to be the representation, warranty, covenant or agreement of any official, elected officer, officer, agent, counsel or employee of the Issuer in his individual capacity, and neither the members of the Issuer nor any official executing the Bonds shall be liable personally on the Bonds or be subject to any personal liability or accountability by reason of the issuance thereof.

Section 13.05. Bonds Owned by the Issuer or the Company. In determining whether the Owners of the requisite aggregate principal amount of the Bonds have concurred in any direction, consent or waiver under this Indenture, Bonds which are owned by the Issuer or the Company or by any person directly or indirectly controlling or controlled by or under direct or indirect common control with the Company (unless the Issuer, the Company or such person owns all Bonds which are then Outstanding, determined without regard to this Section 13.05) shall be disregarded and deemed not to be Outstanding for the purpose of any such determination, except that, for the purpose of determining whether the Trustee shall be protected in relying on any such direction, consent or waiver, only Bonds which the Trustee knows are so owned shall be so disregarded. Bonds so owned which have been pledged in good faith may be regarded as Outstanding if the pledgee establishes to the satisfaction of the Trustee the pledgee's right so to act with respect to such Bonds and that the pledgee is not the Issuer or the Company or any person directly or indirectly controlling or controlled by or under direct or indirect common control with the Issuer. In case of a dispute as to such right, any decision by the Trustee taken upon the advice of counsel shall be full protection to the Trustee.

Section 13.06. Counterparts. This Indenture may be executed in any number of counterparts, each of which, when so executed and delivered, shall be an original; but such counterparts shall together constitute but one and the same Indenture.

Section 13.07. Governing Law. This Indenture shall be governed by and construed in accordance with the laws of the State.

Section 13.08. Notices. Except as otherwise provided in this Indenture, all notices, certificates, requests, requisitions, directions or other communications by the Issuer, the Company, the Insurer, the Trustee, the Company Mortgage Trustee, the Registrar, the Remarketing Agent, each Bank (or each Obligor on an Alternate Liquidity Facility, as the case may be) or the Agent Bank (or the Agent Obligor on an Alternate Liquidity Facility, as the case may be) pursuant to this Indenture shall be in writing and shall be sufficiently given and shall be deemed given when mailed by first class mail, postage prepaid, addressed as follows:

if to the Issuer, to: Carbon County
County Courthouse
120 East Main
Price, Utah 84501

Attention: Chair, Board of County Commissioners

if to the Trustee, to: The First National Bank of Chicago
One First National Plaza, Suite 0126
Chicago, Illinois 60670

Attention: Corporate Trust Administration

if to the Company, to: PacifiCorp
700 N.E. Multnomah Street
Suite 1600
Portland, Oregon 97232-4116

Attention: Vice President (Corporate Finance)

if to the Insurer, to: AMBAC Indemnity Corporation
One State Street Plaza
New York, New York 10004

Attention: General Counsel

if to the Registrar, the Company Mortgage Trustee, a Bank (or an Obligor on an Alternate Liquidity Facility, as the case may be) or the Agent Obligor on an Alternate Liquidity Facility, such address as is designated in writing by it to the Trustee and the Issuer and if to the Remarketing Agent, at the address specified in the Remarketing Agreement and if to the Agent Bank, at the address specified in the Standby Purchase Agreement. Any of the foregoing may, by notice given hereunder to each of the others, designate any further or different addresses to which subsequent notices, certificates, requests or other communications shall be sent hereunder. Any communications required to be given hereunder by the Company shall be given by an Authorized Company Representative.

Section 13.09. Holidays. If the date for making any payment or the last date for performance of any act or the exercising of any right, as provided in this Indenture, shall not be a Business Day, such payment may, unless otherwise provided in this Indenture or the Agreement, be made or act performed or right exercised on the next succeeding Business Day with the same force and effect as if done on the nominal date provided in this Indenture, and no interest shall accrue for the period after such nominal date.

Section 13.10. Purchase of Bonds by Trustee and Remarketing Agent. The Trustee and the Issuer agree that in connection with the purchase of any Bonds pursuant to this Indenture, the Trustee and the Remarketing Agent are acting solely on behalf of the Company.

Section 13.11. Notices to Moody's and S&P. The Trustee shall provide prior written notice to Moody's (if the Bonds are then rated by Moody's) and to S&P (if the Bonds are then rated by S&P) of (a) the payment of the principal of, and premium, if any, and interest on, all of the Bonds, (b) the expiration, termination, substitution or extension of the Standby Purchase Agreement or an Alternate Liquidity Facility, as the case may be, (c) the resignation or removal of the Trustee or the Remarketing Agent, (d) any modifications, alterations, amendments or supplements of this Indenture, the Agreement, the Liquidity Agreement, the Standby Purchase Agreement, the Remarketing Agreement and the Pledge Agreement, and (e) the conversion under Section 2.02 hereof of the method by which interest on the Bonds is determined.

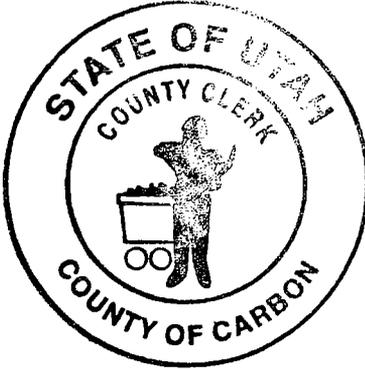
Section 13.12. System of Registration. In accordance with Section 15-7-4, Utah Code Annotated 1953, as amended, this Indenture shall constitute a "system of registration" for all purposes of the Registered Public Obligations Act of the State.

Section 13.13. Pledge and Undertaking for the State. In entering into this Indenture and otherwise providing for the issuance of the Bonds, the Issuer and the Trustee on behalf of the Owners of the Bonds have specifically relied upon Section 11-17-13 of the Act, which provides:

"The State of Utah does hereby pledge to and agree with the holders of any bonds issued under this act and with those parties who may enter into contracts with any county or municipality under this act, that the state will not alter, impair or limit the rights thereby vested until the bonds, together with applicable interest, are fully met and discharged and such contracts are fully performed. Nothing contained in this act shall preclude such alteration, impairment or limitation if and when adequate provision shall be made by law for the protection of the holders of the bonds or persons entering into contracts with any county or municipality. Each county and municipality is authorized to include this pledge and undertaking for the state in such bonds or contracts."

IN WITNESS WHEREOF, Carbon County, Utah, has caused these presents to be signed in its name and behalf by the Chair of the Board of County Commissioners and its official seal to be hereunto affixed and attested by the County Clerk, and to evidence its acceptance of the trusts hereby created the Trustee has caused these presents to be signed in its name and behalf by one of its Vice Presidents, its official seal to be hereunto affixed, and the same to be attested by one of its Trust Officers and Assistant Secretaries, all as November 1, 1994.

[SEAL]



CARBON COUNTY, UTAH

By *Neil Brink*
Chair,
Board of County Commissioners

ATTEST:

Robert D. Brown
County Clerk

[SEAL]

THE FIRST NATIONAL BANK OF CHICAGO,
as Trustee

By *[Signature]*
Vice President

ATTEST:

[Signature]
Trust Officer and Assistant Secretary

EXHIBIT A

(FORM OF BOND)

No. R- _____

\$ _____

UNITED STATES OF AMERICA

STATE OF UTAH

CARBON COUNTY

POLLUTION CONTROL REVENUE REFUNDING BOND

(PACIFICORP PROJECT)

SERIES 1994

[For Flexible Interest Rate Periods Only]

Interest Rate	Number of Days in Flexible Segment	Mandatory Purchase and Interest Payment Date	Amount of Interest Due for Flexible Segment
_____ %	_____	_____	_____
DATED DATE	MATURITY DATE	CUSIP	
_____	_____	_____	

Registered Owner: _____

Principal Amount: -----

Carbon County, Utah (the "Issuer"), a political subdivision duly organized and existing under the Constitution and laws of the State of Utah, for value received, hereby promises to pay (but only out of the sources hereinafter provided) to the registered owner identified above, or registered assigns, on November 1, 2024, the principal amount set forth above and to pay (but only out of the sources hereinafter provided) interest on the balance of said principal amount from time to time remaining unpaid from and including the date hereof until payment of said principal amount has been made or duly provided for, at the rates and on the dates determined as described herein and in the Indenture as hereinafter defined, and to pay (but only out of the sources hereinafter provided), except as the provisions hereinafter set forth with respect to redemption, purchase or acceleration prior to maturity may become applicable hereto. The principal of and premium, if any, on this Bond (as hereinafter defined) are payable in lawful money of the United States of America at the delivery office of The First

National Bank of Chicago, or its successors and assigns, as Paying Agent (the "*Paying Agent*"), in New York, New York. Interest payments on this Bond shall be made by the Paying Agent to the registered owner hereof as of the close of business on the Record Date (as defined in the Indenture) with respect to each Interest Payment Date (as defined in the Indenture) and shall be paid (i) by bank check or draft mailed by first-class mail on the Interest Payment Date to the registered owner hereof at its address as it appears on the registration books of The First National Bank of Chicago, as registrar (the "*Registrar*"), or at such other address as is furnished in writing by such registered owner to the Registrar, or (ii) during any Rate Period other than a Term Interest Rate Period, in immediately available funds (by wire transfer or by deposit to the account of the registered owner of this Bond if such account is maintained with the Paying Agent), but in respect of any registered owner of any Bond or Bonds in a Daily Interest Rate Period or a Weekly Interest Rate Period, only to any registered owner that owns Bonds in an aggregate principal amount of at least \$1,000,000 on such Record Date, according to the instructions given by the registered owner hereof to the Registrar or, if no such instructions have been provided as of the Record Date, by check mailed by first-class mail to the registered owner at such registered owner's address as it appears as of the Record Date on the registration books of the Registrar; except, in each case, that, if and to the extent that there shall be a default in the payment of the interest due on such Interest Payment Date, such defaulted interest shall be paid to the Owners in whose name any such Bonds are registered as of a special record date to be fixed by the Trustee, notice of which shall be given to such Owners not less than ten (10) days prior thereto. Notwithstanding the foregoing, interest in respect of any Bond bearing a Flexible Interest Rate shall be paid only upon presentation to the Trustee of the Bond on which such payment is due.

THIS BOND AND ALL OTHER BONDS OF THE ISSUE OF WHICH IT FORMS A PART SHALL BE A LIMITED OBLIGATION OF THE ISSUER, SHALL NOT CONSTITUTE NOR GIVE RISE TO A GENERAL OBLIGATION OR LIABILITY OF THE ISSUER OR A CHARGE AGAINST ITS GENERAL CREDIT OR TAXING POWERS, AND SHALL NOT CONSTITUTE AN INDEBTEDNESS OF THE ISSUER OR A LOAN OF CREDIT THEREOF WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY PROVISION.

This Bond is one of the duly authorized Pollution Control Revenue Refunding Bonds (PacifiCorp Project) Series 1994 of the Issuer, originally issued in the aggregate principal amount of \$9,365,000 (the "*Bonds*"), issued pursuant to proper action duly adopted by the governing authority of the Issuer on November 2, 1994, and the applicable provisions of the Utah Industrial Facilities and Development Act, Title 11, Chapter 17, Utah Code Annotated 1953, as amended and supplemented (the "*Act*"), and executed under a Trust Indenture, dated as of November 1, 1994 (the "*Indenture*"), between the Issuer and The First National Bank of Chicago, as trustee (the "*Trustee*," which term shall include any successor Trustee), for the purpose of providing the funds necessary for the refunding of the aggregate outstanding principal amount of certain pollution control revenue bonds previously issued by the Issuer to finance certain solid waste disposal or air or water pollution control facilities at the Carbon coal-fired electric generating plant now owned by PacifiCorp, an Oregon corporation (the "*Company*"). Pursuant to a Loan Agreement, dated as of November 1, 1994 (the "*Loan Agreement*"), between the Issuer and the Company, the proceeds of the Bonds have been loaned to the Company. The obligation of the Company to repay such loan is secured by the

Company's first mortgage and collateral trust bonds (the "*First Mortgage Bonds*") issued and delivered to the Trustee as an additional series under the Mortgage and Deed of Trust, dated as of January 9, 1989, from the Company to Chemical Bank, as successor trustee, as heretofore and hereafter amended and supplemented (the "*Company Mortgage*"). AMBAC Indemnity Corporation (the "*Insurer*") has provided a bond insurance policy as described above.

This Bond and all other Bonds of the issue of which it forms a part are issued pursuant to and in full compliance with the Constitution and laws of the State of Utah, particularly the Act, and pursuant to further proceedings adopted by the governing authority of the Issuer, which proceedings authorize the execution and delivery of the Indenture. This Bond and the issue of which it forms a part are limited and not general obligations of the Issuer payable solely from the Revenues and amounts derived under the Loan Agreement and pledged under the Indenture consisting of all amounts payable from time to time by the Company in respect of the indebtedness under the Loan Agreement and the First Mortgage Bonds and all receipts of the Trustee credited under the provisions of the Indenture against said amounts payable. No Owner of any Bond issued under the Act has the right to compel any exercise of the taxing power of the Issuer to pay the Bonds, or the interest or premium, if any, thereon. The Bonds shall not constitute an indebtedness or a general obligation of the Issuer or a loan of credit thereof within the meaning of any constitutional or statutory provision, nor shall any of the Bonds constitute or give rise to a pecuniary liability of the Issuer or a charge against its general credit or taxing powers.

Any term used herein as a defined term but not defined herein shall be defined as in the Indenture.

In the manner hereinafter provided and subject to the provisions of the Indenture, the term of the Bonds will be divided into consecutive Rate Periods during each of which the Bonds shall bear interest at the Daily Interest Rate (the "*Daily Interest Rate Period*"), the Weekly Interest Rate (the "*Weekly Interest Rate Period*"), the Term Interest Rate (the "*Term Interest Rate Period*") or the Flexible Interest Rate (the "*Flexible Interest Rate Period*"). The initial Rate Period for the Bonds shall be a Daily Interest Rate Period.

This Bond shall bear interest from the Interest Payment Date next preceding the date of registration and authentication hereof unless it is registered and authenticated after a Record Date and on or prior to the related Interest Payment Date, in which event this Bond shall bear interest from such Interest Payment Date, or unless this Bond is registered and authenticated before the Record Date for the first Interest Payment Date, in which event this Bond shall bear interest from its Issue Date; *provided, however*, that if, as shown by the records of the Paying Agent, interest on the Bonds shall be in default, Bonds issued in exchange for Bonds surrendered for transfer or exchange shall bear interest from the last date to which interest has been paid in full or duly provided for on the Bonds, or, if no interest has been paid or duly provided for on the Bonds, from the Issue Date of the Bonds. Interest shall be computed, (a) in the case of a Term Interest Rate Period, on the basis of a 360-day year consisting of twelve 30-day months, and (b) in the case of any other Rate Period, on the basis of a 365- or 366-day year, as appropriate, for the actual number of days elapsed. The term "*Interest Payment Date*" means (i) with respect to any Daily or Weekly Interest Rate Period, the first

Business Day of each calendar month, (ii) with respect to any Term Interest Rate Period, the first day of the sixth month following the commencement of the Term Interest Rate Period and the first day of each sixth month thereafter, (iii) with respect to any Flexible Segment, the Business Day next succeeding the last day thereof, (iv) with respect to any Rate Period, the Business Day next succeeding the last day thereof, (v) with respect to any Bond when it bears interest at a Flexible Interest Rate, any date on which there is a mandatory purchase with respect to certain instances of an expiration or termination of the Standby Purchase Agreement or Alternate Liquidity Facility, as the case may be, and (vi) with respect to any Unremarketed Bond (as defined in the Indenture), (A) the first day of each month succeeding the date on which such Unremarketed Bond was purchased by the Bank or the Obligor on an Alternate Liquidity Facility, as the case may be, (B) each date on which any principal of such Unremarketed Bond is paid at maturity or upon acceleration or upon redemption and (C) upon the remarketing of the Unremarketed Bonds, the date on which the remarketed Bond is delivered to the purchaser thereof. The term "*Business Day*" means a day except a Saturday, Sunday or other day (a) on which commercial banks located in the cities in which the Principal Office of the Agent Bank (or the Principal Office of the Agent Obligor on an Alternate Liquidity Facility, as the case may be), the Principal Office of the Trustee, the Principal Office of the Remarketing Agent or the Principal Office of the Paying Agent are located are required or authorized by law to remain closed or are closed, or (b) on which The New York Stock Exchange, Inc. is closed.

The Bonds shall be deliverable in the form of registered Bonds without coupons in the following denominations: (i) \$100,000 or any integral multiple of \$100,000 (*provided* that one Bond need not be in a multiple of \$100,000 but may be in such denomination greater than \$100,000 as shall be necessary to account for any principal amount of the Bonds not corresponding directly with \$100,000 denominations) when the Bonds bear interest at a Daily or Weekly Interest Rate; (ii) \$100,000 or any integral multiple of \$5,000 in excess of \$100,000 when the Bonds bear interest at a Flexible Interest Rate; and (iii) \$5,000 or integral multiples of \$5,000 when the Bonds bear interest at a Term Interest Rate (such denominations being referred to herein as "*Authorized Denominations*").

"*Record Date*" means (a) with respect to any Interest Payment Date in respect of any Daily Interest Rate Period, Weekly Interest Rate Period or Flexible Segment, the Business Day next preceding such Interest Payment Date; and (b) with respect to any Interest Payment Date in respect of any Term Interest Rate Period, the fifteenth day of the month preceding such Interest Payment Date.

During each Daily Interest Rate Period, the Bonds (other than Unremarketed Bonds) shall bear interest at a Daily Interest Rate, determined in accordance with the provisions of the Indenture by the Remarketing Agent on each Business Day for such Business Day or on the next preceding Business Day for the Business Day next succeeding such date of determination and as may be determined by the Remarketing Agent for any day that is not a Business Day on any such day during which there shall be active trading in Tax-Exempt obligations comparable to the Bonds for such day.

During each Weekly Interest Rate Period, the Bonds (other than Unremarketed Bonds) shall bear interest at a Weekly Rate, determined in accordance with the provisions of the Indenture by the Remarketing Agent no later than the first day of such Weekly Interest Rate Period and thereafter no later than Tuesday of each week during such Weekly Interest Rate Period, unless any such Tuesday shall not be a Business Day, in which event the Weekly Interest Rate shall be determined by the Remarketing Agent no later than the Business Day next preceding such Tuesday.

During each Term Interest Rate Period, the Bonds (other than Unremarketed Bonds) shall bear interest at the Term Interest Rate, determined in accordance with the provisions of the Indenture by the Remarketing Agent on a Business Day selected by the Remarketing Agent but no more than 30 days prior to and not later than the effective date of such Term Interest Rate Period.

During each Flexible Interest Rate Period, each Bond (other than Unremarketed Bonds) shall bear interest during each Flexible Segment for such Bond at the Flexible Interest Rate for such Bond as described in the Indenture. Each Flexible Segment and Flexible Interest Rate shall be determined in accordance with the provisions of the Indenture by the Remarketing Agent. Each Flexible Segment shall be a period of not less than one nor more than 365 days.

In the event that this Bond is an Unremarketed Bond, the interest rate payable with respect to such Unremarketed Bond shall be that variable rate of interest determined daily necessary to produce an amount equal to the interest at the Prime Rate (or, with respect to any overdue amount, the Prime Rate plus two percent (2%)) calculated on (i) the principal amount of such Unremarketed Bond plus (ii) to the extent permitted by law, the amount of accrued interest paid by a Bank (or Obligor under an Alternate Liquidity Agreement, as the case may be) to purchase this Bond, until such principal and accrued interest have been repaid to such Bank (or Obligor of an Alternate Liquidity Facility, as the case may be). Upon the remarketing of an Unremarketed Bond, such Bond shall cease to bear the rate of interest set forth in this paragraph. This Bond shall bear interest at the rate set forth in this paragraph only while such Bond is held by or for the benefit of a Bank or an Obligor on an Alternate Liquidity Facility, as the case may be.

In no event shall the interest rate on any Bond be greater than 18% per annum.

At the times and subject to the conditions set forth in the Indenture, the Company may elect that the Bonds shall bear interest at an interest rate, and for a period, different from those then applicable. The Trustee shall give notice of any such adjustment to the owners of the Bonds not less than 20 days prior to the effective date of such adjustment. Notwithstanding anything in the Indenture to the contrary, the Company may rescind any such election and the Bonds will then bear interest as provided in the Indenture.

During any Daily Interest Rate Period, any Bond or portion thereof in an Authorized Denomination shall be purchased at the option of the owner thereof on any Business Day at a purchase price equal to 100% of the principal amount thereof plus accrued interest, if any, from the Interest Payment Date next preceding the date of purchase to the date of purchase

(unless the date of purchase shall be an Interest Payment Date, in which case the purchase price shall be equal to the principal amount thereof) upon (a) delivery to the Trustee at the Delivery Office of the Trustee, by no later than 11:00 a.m., New York time, on such Business Day, of an irrevocable written notice or an irrevocable notice by telephone, which states the principal amount and the certificate number (if the Bonds are not then held in book-entry form) of such Bond and the date on which the same shall be purchased, and (b) except when a book-entry system is in effect for the Bonds, delivery of such Bond to the Trustee at the Delivery Office of the Trustee, accompanied by an instrument of transfer thereof, in a form satisfactory to the Trustee, executed in blank by the registered owner thereof with the signature of such owner guaranteed by a bank, trust company or member firm of the New York Stock Exchange, Inc., at or prior to 1:00 p.m., New York time, on the date specified in such notice.

During any Weekly Interest Rate Period, any Bond or portion thereof in an Authorized Denomination shall be purchased at the option of the owner thereof on any Wednesday, or if such Wednesday is not a Business Day, the next succeeding Business Day, at a purchase price equal to 100% of the principal amount thereof plus accrued interest, if any, from the Interest Payment Date next preceding the date of purchase to the date of purchase (unless the date of purchase shall be an Interest Payment Date, in which case the purchase price shall be equal to the principal amount thereof), upon (a) delivery to the Trustee at the Delivery Office of the Trustee of an irrevocable written notice or an irrevocable notice by telephone (promptly confirmed by telecopy or other writing), by 5:00 p.m., New York time, on any Business Day, which states the principal amount of such Bond and the certificate number (if the Bonds are not held in book-entry form) and the date on which the same shall be purchased, which date shall not be prior to the seventh day next succeeding the date of the delivery of such notice to the Trustee, and (b) except when a book-entry system is in effect for the Bonds, delivery of such Bond to the Trustee at the Delivery Office of the Trustee, accompanied by an instrument of transfer thereof, in a form satisfactory to the Trustee, executed in blank by the Owner thereof with the signature of such Owner guaranteed by a bank, trust company or member firm of the New York Stock Exchange, Inc., at or prior to 1:00 p.m., New York time, on the date specified in such notice.

Any bond or portion thereof in an Authorized Denomination shall be purchased at the option of the owner thereof on the first day of any Term Interest Rate Period which is preceded by a Term Interest Rate Period of equal duration at a purchase price equal to (a) if the Bond is purchased on or prior to the Record Date, 100% of the principal amount thereof plus accrued interest from the Interest Payment Date next preceding the date of purchase to the date of purchase (unless the date of purchase shall be an Interest Payment, in which case the purchase price shall be equal to the principal amount thereof) or (b) if the Bond is purchased after the Record Date, 100% of the principal amount thereof, upon (i) delivery to the Trustee at the Delivery Office of the Trustee of an irrevocable notice in writing by 5:00 p.m., New York time, on any Business Day not less than fifteen days before the purchase date, which states the principal amount and certificate number (if the Bonds are not then held in book-entry form) of such Bond to be purchased and (ii) except when a book-entry system is in effect for the Bonds, delivery of such Bond to the Trustee at the Delivery Office of the Trustee, accompanied by an instrument of transfer thereof, in a form satisfactory to the Trustee,

executed in blank by the Owner thereof with the signature of such Owner guaranteed by a bank, trust company or member firm of the New York Stock Exchange, Inc., at or prior to 1:00 p.m., New York time, on the purchase date.

In each case in which a portion of a Bond is purchased, both the portion so purchased and the portion of such Bond not so purchased shall be in Authorized Denominations.

This Bond shall be subject to mandatory purchase at a purchase price equal to 100% of the principal amount thereof, plus accrued interest, if any, to the purchase date: (a) on the effective date of any change in a Rate Period other than the effective date of a Term Interest Rate Period which was preceded by a Term Interest Rate Period of the same duration; (b) during any Flexible Interest Rate Period, on the day next succeeding the last day of any Flexible Segment thereof; and (c) on the Business Day preceding certain instances of the expiration or termination of the Standby Purchase Agreement or an Alternate Liquidity Facility unless (i) the Company has delivered to the Trustee at least twenty (20) days prior to such expiration or termination the written evidence with respect to the ratings of the Bonds required by the Loan Agreement and if an Alternate Liquidity Facility is to be delivered upon such expiration or termination, such Alternate Liquidity Facility or (ii) the Bank or the Obligor on an Alternate Liquidity Facility, as the case may be, has no obligation to provide moneys on such Business Day to purchase Bonds under the Standby Purchase Agreement or the Alternate Liquidity Facility, as the case may be. The Bonds are also subject to mandatory purchase during any Term Interest Rate Period on a day that the Bonds would be subject to redemption, at a purchase price equal to 100% the principal amount thereof plus an amount equal to any premium which would have been payable on such redemption date had the Bonds been redeemed if the Company gives notice to the Trustee on the day prior to the redemption date that it elects to have the Bonds purchased in lieu of redemption. If the Bonds are purchased on or prior to the Record Date, the purchase price shall include accrued interest from the Interest Payment Date next preceding the date of purchase to the date of purchase (unless the date of purchase shall be an Interest Payment Date, in which case the purchase price shall be equal to the amount specified in the preceding sentence). If the Bonds are purchased after the Record Date, the purchase price shall not include accrued interest.

The Trustee shall give notice by mail to the Owners of the Bonds at the addresses shown on the registration books kept by the Registrar of a mandatory purchase effected pursuant to clause (c) of the preceding paragraph at least fifteen days prior to such expiration or termination.

BY ACCEPTANCE OF THIS BOND, THE REGISTERED OWNER HEREBY AGREES THAT, IF THIS BOND IS TO BE PURCHASED AND IF MONEYS SUFFICIENT TO PAY THE PURCHASE PRICE SHALL BE HELD BY THE TRUSTEE ON THE DATE THIS BOND IS TO BE PURCHASED, THIS BOND SHALL BE DEEMED TO HAVE BEEN PURCHASED AND SHALL BE PURCHASED ACCORDING TO THE TERMS OF THE INDENTURE, FOR ALL PURPOSES OF THE INDENTURE, WHETHER OR NOT THIS BOND SHALL HAVE BEEN DELIVERED TO THE TRUSTEE, AND THE OWNER OF THIS BOND SHALL HAVE NO CLAIM HEREON, UNDER THE INDENTURE OR OTHERWISE, FOR ANY AMOUNT OTHER THAN THE PURCHASE PRICE HEREOF.

The Bonds shall be redeemed in whole or in part, and if in part by lot, at any time at a redemption price equal to 100% of the principal amount thereof plus accrued interest to the redemption date upon receipt by the Trustee of a written notice from the Company stating that any of the following events has occurred and that the Company therefore intends to exercise its option to prepay the payments due under the Loan Agreement in whole or in part and thereby effect the redemption of Bonds in whole or in part to the extent of such prepayments: (a) the Company shall have determined that the continued operation of the Plant is impracticable, uneconomical or undesirable for any reason; (b) the Company shall have determined that the continued operation of the Project is impracticable, uneconomical or undesirable due to (i) the imposition of taxes, other than ad valorem taxes currently levied upon privately owned property used for the same general purpose as the Project, or other liabilities or burdens with respect to the Project or the operation thereof, (ii) changes in technology, in environmental standards or legal requirements or in the economic availability of materials, supplies, equipment or labor or (iii) destruction of or damage to all or part of the Project; (c) all or substantially all of the Project or the Plant shall have been condemned or taken by eminent domain; (d) the operation of the Project or the Plant shall have been enjoined or shall have otherwise been prohibited by, or shall conflict with, any order, decree, rule or regulation of any court or of any federal, state or local regulatory body, administrative agency or other governmental body.

The Bonds shall be subject to redemption upon prepayment of the Loan Payments at the option of the Company, in whole, or in part by lot, prior to their maturity dates, as follows:

(i) While the Bonds bear interest at a Flexible Interest Rate or Rates, each Bond shall be subject to such redemption upon prepayment of the amounts due under the Loan Agreement on the day next succeeding the last day of each Flexible Segment for such Bond at a redemption price equal to 100% of the principal amount thereof.

(ii) While the Bonds bear interest at a Daily Interest Rate or a Weekly Interest Rate, the Bonds shall be subject to redemption upon prepayment of the amounts due under the Loan Agreement on any Business Day at a redemption price equal to 100% of the principal amount thereof, plus accrued interest, if any, to the date of redemption.

(iii) While the Bonds bear interest at a Term Interest Rate and on the day next succeeding the last day of each Term Interest Rate Period, the Bonds shall be subject to redemption during the Term Interest Rate Periods specified below (or during the Term Interest Rate Periods specified pursuant to the provisions of the next succeeding paragraph), in whole or in part at any time, at the redemption prices (expressed as percentages of principal amount) hereinafter indicated plus accrued interest, if any, to the redemption date:

<u>LENGTH OF TERM INTEREST RATE PERIOD</u>	<u>REDEMPTION DATES AND PRICES</u>
Greater than 13 years	At any time on or after the 10th anniversary of the effective date of the Term Interest Rate Period at 102% declining 1% annually to 100%
Greater than 10 and less than or equal to 13 years	At any time on or after the 5th anniversary of the effective date of the Term Interest Rate Period at 102% declining 1% annually to 100%
Greater than 7 and less than or equal to 10 years	At any time on or after the 3rd anniversary of the effective date of the Term Interest Rate Period at 102% declining 1% annually to 100%
Greater than 4 and less than or equal to 7 years	At any time on or after the 2nd anniversary of the effective date of the Term Interest Rate Period at 101% declining 1/2% annually to 100%
Greater than 2 and less than or equal to 4 years	At any time on or after the 2nd anniversary of the effective date of the Term Interest Rate Period at 101% declining 1/2% each six months thereafter to 100%
Greater than 1 and less than or equal to 2 years	At any time on or after the 1st anniversary of the effective date of the Term Interest Rate Period at 100-1/2% declining 1/2% six months thereafter to 100%
Less than or equal to 1 year	Not redeemable.

With respect to any Term Interest Rate Period, the Company may specify in a notice given to the Trustee prior to the effective date of such Term Interest Rate Period, redemption provisions, prices and periods other than those set forth above; *provided, however*, that such notice shall be accompanied by an opinion of Bond Counsel to the effect that such changes (i) are authorized or permitted by the Act and the Indenture, and (ii) will not adversely affect the Tax-Exempt status of the Bonds.

The Bonds shall be redeemed in whole on any date from amounts which are to be prepaid by the Company under the Loan Agreement, at a redemption price equal to 100% of

the principal amount thereof plus interest accrued to the redemption date within 180 days after the occurrence of a Determination of Taxability; *provided* that if, in the opinion of Bond Counsel delivered to the Trustee, the redemption of a specified portion of the Bonds outstanding would have the result that interest payable on the Bonds remaining outstanding after such redemption would remain Tax-Exempt, then the Bonds shall be redeemed in part by lot (in Authorized Denominations), in such amount as Bond Counsel in such opinion shall have determined is necessary to accomplish that result.

A "*Determination of Taxability*" shall be deemed to have occurred if as a result of the Company's failure to observe any covenant, agreement or representation in the Agreement, a final decree or judgment of any federal court or a final action of the Internal Revenue Service determines that interest paid or payable on any Bond is or was includible in the gross income of an Owner of the Bonds for federal income tax purposes under the Code (other than an Owner who is a "substantial user" or "related person" within the meaning of Section 103(b)(13) of the 1954 Code). However, no such decree or action will be considered final for this purpose unless the Company has been given written notice and, if it is so desired and is legally allowed, has been afforded the opportunity to contest the same, either directly or in the name of any Owner of a Bond, and until conclusion of any appellate review, if sought.

Unremarketed Bonds held by the Bank or the Agent Obligor on an Alternate Liquidity Facility shall be subject to redemption in accordance with the provisions of the Indenture.

Notice of any optional or mandatory redemption shall be given by first-class mail not less than 30 days nor more than 60 days prior to the date fixed for redemption to the Owners of Bonds appearing on the registration books of the Registrar on the date such notice is mailed. Such notice shall state, among other things, that such redemption shall be conditional upon the receipt of Available Moneys sufficient to pay the principal of, and premium, if any, and interest on such Bonds to be redeemed. In the event such Available Moneys are not so received, the redemption shall not be made and the Trustee shall within a reasonable time thereafter give notice, in the manner in which the notice of redemption was given, that such redemption will not take place. If less than all of the Bonds are called for redemption, the Trustee shall select the Bonds or any given portion thereof from the outstanding Bonds or such given portion thereof not previously called for redemption, by lot. For the purpose of any such selection the Trustee shall assign a separate number for each minimum Authorized Denomination of each Bond of a denomination of more than such minimum; *provided* that, following any such selection, both the portion of such Bond to be redeemed and the portion remaining shall be in Authorized Denominations.

Subject to the limitations and upon payment of the charges, if any, provided in the Indenture, Bonds may be exchanged at the Principal Office of the Registrar for a like aggregate principal amount of Bonds of the same tenor and of Authorized Denominations.

This Bond is transferable by the person in whose name it is registered, in person, or by its attorney duly authorized in writing, at the principal office of the Registrar, but only in the manner, subject to the limitations and upon payment of the charges provided in the Indenture, and upon surrender and cancellation of this Bond accompanied by a written instrument of

transfer in a form approved by the Registrar, duly executed. Upon such transfer a new fully-registered Bond or Bonds in Authorized Denominations, for the same aggregate principal amount, will be issued to the transferee in exchange therefor.

The Issuer, the Registrar, the Trustee and any agent of the Issuer, the Registrar or the Trustee may treat the person in whose name this Bond is registered as the owner hereof for the purpose of receiving payment as herein provided and for all other purposes, whether or not this Bond be overdue, and neither the Issuer, the Registrar, the Trustee, any paying agent nor any such agent shall be affected by notice to the contrary.

The Bonds are equally and ratably secured, to the extent provided in the Indenture, by the pledge thereunder of the "*Revenues*," which term is used herein as defined in the Indenture and which as therein defined means all moneys paid or payable to the Trustee for the account of the Issuer in accordance with the Loan Agreement, the First Mortgage Bonds, the Pledge Agreement and the Insurance Policy, and all receipts credited under the provisions of the Indenture against such payments; *provided, however, that "Revenues" shall not include moneys held by the Trustee to pay the purchase price of Bonds subject to purchase pursuant to the Indenture.* The Issuer has also pledged and assigned to the Trustee as security for the Bonds all other rights and interests of the Issuer under the Loan Agreement (other than its rights to indemnification and certain administrative expenses and certain other rights).

The Owner of this Bond shall have no right to enforce the provisions of the Indenture, or to institute action to enforce the covenants therein, or to take any action with respect to any Event of Default under the Indenture, or to institute, appear in or defend any suit or other proceeding with respect thereto, except as provided in the Indenture.

The Indenture and the Loan Agreement may also be modified or amended only with the consent of the Insurer (unless an Insurer Default as specified in the Indenture shall have occurred and be continuing) and the Owners of not less than 60% in aggregate principal amount of all Bonds then Outstanding under the Indenture. With certain exceptions as provided in the Indenture, the Trustee may not vote the First Mortgage Bonds, or consent with respect thereto, without (a) the consent of the Owners of not less than 60% in aggregate principal amount of all Bonds outstanding under the Indenture and (b) the consent of the Insurer (unless an Insurer Default shall have occurred and be continuing, in which event the consent of each Bank, or each Obligor on an Alternate Liquidity Facility, as the case may be, shall be required).

Reference is hereby made to the Indenture, the Loan Agreement, the Insurance Policy, the Standby Purchase Agreement (or Alternate Liquidity Facility, as the case may be) and the Tax Certificate, copies of which are on file with the Trustee, and to the First Mortgage Bonds which are held by the Trustee, for the provisions, among others, with respect to the nature and extent of the rights, duties and obligations of the Issuer, the Company, the Trustee, the Registrar, the Bank (or the Obligor on an Alternate Liquidity Facility, as the case may be), the Remarketing Agent and the Owners of the Bonds. The Owner of this Bond, by the acceptance hereof, is deemed to have agreed and consented to and to be bound by the terms and

provisions of the Indenture, the Agreement, the Tax Certificate, the Company Mortgage and the First Mortgage Bonds.

The Indenture prescribes the manner in which it may be discharged, including (a) a provision that the Bonds shall be deemed to be paid if moneys sufficient to pay the principal of, premium, if any, and interest on the Bonds shall have been deposited with the Trustee and all necessary and proper fees, compensation and expenses of the Trustee, the Registrar, the Remarketing Agent, the Insurer, the Agent Bank (or the Agent Obligor on an Alternate Liquidity Facility, as the case may be) and each Bank (or each Obligor on an Alternate Liquidity Facility, as the case may be) shall have been paid or provided for, after which the Bonds shall no longer be secured by or entitled to the benefits of the Indenture, except for the purposes of registration and exchange of Bonds, of delivery of the Bonds to the Trustee for purchase, of mandatory purchase of the Bonds in certain instances of the expiration or the termination of the Standby Purchase Agreement or an Alternate Liquidity Facility and of such payment, and (b) a provision that, if the Bonds mature or are called for redemption prior to the next date upon which the Bonds are subject to purchase pursuant to the Indenture, and if the Company waives its right to convert the interest rate borne by the Bonds, the Bonds shall be deemed to be paid if Government Obligations, as defined therein, maturing as to principal and interest in such amounts and at such times as to insure the availability of sufficient moneys to pay the principal of, premium, if any, and interest on the Bonds and all necessary and proper fees, compensation and expenses of the Trustee and the Registrar, shall have been deposited with the Trustee, after which the Bonds shall no longer be secured by or entitled to the benefits of the Indenture, except for the purposes of registration and exchange of Bonds and of such payment.

No recourse shall be had for the payment of the principal of, premium, if any, or interest on any of the Bonds or for any claim based thereon or upon any obligation, covenant or agreement in the Indenture contained, against any past, present or future officer, elected official, agent or employee of the Issuer, or any incorporator, officer, director or member of any successor corporation, as such, either directly or through the Issuer or any successor corporation, under any rule of law or equity, statute or constitution or by the enforcement of any assessment or penalty or otherwise, and all such liability of any such incorporator, officer, director or member is hereby expressly waived and released as a condition of and in consideration for the execution of the Indenture and the issuance of any of the Bonds.

IT IS HEREBY CERTIFIED, RECITED AND DECLARED that all acts, conditions and things required to exist, happen and be performed precedent to and in the execution and delivery of the Indenture and the issuance of this Bond do exist, have happened and have been performed in due time, form and manner as required by law, and that the issuance of this Bond and the issue of which it forms a part, together with all other obligations of the Issuer, does not exceed or violate any constitutional or statutory limitation of indebtedness.

This Bond shall not be entitled to any security or benefit under the Indenture, or be valid or become obligatory for any purpose, until this Bond shall have been authenticated by the execution by the Trustee of the certificate of authentication inscribed hereon.

IN WITNESS WHEREOF, Carbon County, Utah, has caused this Bond to be executed in its name with the [manual or facsimile] signature of the Chair of the Board of County Commissioners and attested by the [manual or facsimile] signature of its County Clerk and [a facsimile of] its corporate seal to be impressed or imprinted hereon all as of the issue date of _____, _____.

CARBON COUNTY, UTAH

By _____
Chair,
Board of County Commissioners

ATTEST:

County Clerk

[SEAL]

[FORM OF CERTIFICATE OF AUTHENTICATION]

This is to certify that this Bond is one of the Bonds of the Series described in the within-mentioned Indenture.

THE FIRST NATIONAL BANK OF CHICAGO,
as Trustee

By _____
Authorized Officer

Date of registration and authentication:

[FORM OF ASSIGNMENT]

ABBREVIATIONS

The following abbreviations, when used in the inscription on the face of this Bond, shall be construed as though they were written out in full according to applicable laws or regulations:

TEN COM	— as tenants in common	UNIF GIFT MIN ACT —
TEN ENT	— as tenants by the entirety	_____ Custodian _____
JT TEN	— as joint tenants with right of survivorship and not as tenants in common	(Cust) (Minor)
		Under Uniform Gifts to Minors Act

		(State)

Additional abbreviations may also be used though not in the above list.

ASSIGNMENT

For value received _____ hereby sells, assigns and transfers unto _____

PLEASE INSERT SOCIAL SECURITY OR OTHER IDENTIFYING NUMBER OF ASSIGNEE

(Please Print or Typewrite Name and Address of Assignee)

the within Bond of CARBON COUNTY, UTAH, and does hereby irrevocably constitute and appoint _____ Attorney to register the transfer of said Bond on the books kept for registration thereof with full power of substitution in the premises.

Dated: _____

Signature: _____

NOTICE: The signature to this assignment must correspond with the name as it appears upon the face of the within Bond in every particular, without alteration or enlargement or any change whatever.

Signature Guaranteed: _____

NOTICE: Signature(s) must be guaranteed by an "eligible guarantor institution" that is a member or participant in a "signature guarantee program" (e.g., the Securities Transfer Agents Medallion Program, the Stock Exchange Medallion Program or the New York Stock Exchange, Inc. Medallion Signature Program).

NOTICE: The signature to this assignment must correspond with the name as it appears upon the face of the within Bond in every particular, without alteration or enlargement or any change whatever.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed as of the day and year first above written.

CARBON COUNTY, UTAH

[SEAL]

By _____
Chair, Board of County Commissioners

Attest:

By _____
County Clerk

PACIFICORP

By Richard T. Orr
Vice President

Attest:

By John M. Schweizer
Assistant Secretary

**EXHIBIT A
TO LOAN AGREEMENT**

PROJECT

The following pollution control facilities located at the Carbon coal-fired electric generating plant located in Carbon County, Utah.

AIR POLLUTION CONTROL FACILITIES

The pollution control facilities for each unit of the Plant include a cold end electrostatic precipitator with an overall particulate removal efficiency of 98%. The precipitators operate in series with, and in addition to, previously existing mechanical precipitators to handle 450,000 cfm of flue gas with respect to Unit No. 1 and 600,000 cfm of flue gas with respect to Unit No. 2.

WATER POLLUTION CONTROL

The water pollution control facilities consist of a settling pond which collect discharges from various Plant drains for clarification before being discharged to the Price River.

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IDAHO PUBLIC
UTILITIES COMMISSION

LOAN AGREEMENT

between

CARBON COUNTY, UTAH

and

PACIFICORP

Dated as of November 1, 1994

Relating To

\$9,365,000

Pollution Control Revenue Refunding Bonds
(PacifiCorp Project)
Series 1994

The amounts payable to the Issuer and certain other rights of the Issuer under this Loan Agreement and in the first mortgage and collateral trust bonds delivered by PacifiCorp in accordance with Section 4.04 hereof (except for amounts payable to, and certain rights and privileges of, the Issuer under Section 4.06, Section 4.08, Section 5.03, Section 5.06, Section 5.07, Section 5.08, Section 7.05 and Section 7.07 hereof and any rights of the Issuer to receive notices, certificates, requests, requisitions, directions and other communications hereunder) have been pledged and assigned to The First National Bank of Chicago, as Trustee under the Trust Indenture, dated as of November 1, 1994, from the Issuer.

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LOAN AGREEMENT

This LOAN AGREEMENT, dated as of November 1, 1994, is between CARBON COUNTY, UTAH, a political subdivision duly organized and existing under the Constitution and laws of the State of Utah, and PACIFICORP, a corporation duly organized under the laws of the State of Oregon, and duly qualified to conduct business in the State of Utah.

RECITALS:

A. The Issuer is authorized by the provisions of the Act to issue one or more series of its revenue bonds to finance all or part of the cost of projects consisting of Exempt Facilities located within the territorial limits of the Issuer.

B. The Act provides that revenue bonds issued thereunder shall be secured by a pledge and assignment of the revenues out of which such revenue bonds shall be payable and may be secured by any other security device deemed most advantageous by the Issuer.

C. The Issuer has previously issued the Prior Bonds on behalf of Utah Power & Light Company for the purpose of financing a portion of the costs of acquiring and improving the Project, and the Prior Bonds are currently outstanding in the principal amount of \$9,365,000.

D. Subsequent to the issuance of the Prior Bonds, Utah Power & Light Company merged with PacifiCorp, an Oregon corporation, which has assumed the obligations and rights of Utah Power & Light Company with respect to the Project and the Prior Bonds.

E. The Issuer is authorized by the provisions of the Act to issue its revenue refunding bonds to refund the Prior Bonds.

F. By proper action of its governing body taken pursuant to and in accordance with the provisions of the Act, the Issuer has authorized and undertaken to issue its \$9,365,000 Pollution Control Revenue Refunding Bonds (PacifiCorp Project) Series 1994, in a total aggregate principal amount equal to the outstanding aggregate principal amount of the Prior Bonds, in order to provide for the refunding of the Prior Bonds.

G. The issuance of the Bonds to refund the Prior Bonds will provide financing on more advantageous terms for the cost of the Project financed by the Prior Bonds.

H. The Bonds shall be issued under and pursuant to the Trust Indenture, dated as of November 1, 1994, between the Issuer and The First National Bank of Chicago, a national banking association, as Trustee, pursuant to which the Issuer shall pledge and assign to the Trustee certain rights of the Issuer hereunder.

I. Pursuant to this Agreement, the Issuer will loan the proceeds of the Bonds to the Company in order to accomplish the refunding of the Prior Bonds, and the Company agrees to make, or cause to be made, payments sufficient to pay when due (whether at stated

maturity, by acceleration or otherwise) the principal of and premium, if any, and interest on the Bonds.

J. The Company agrees under this Agreement to pay, or cause to be paid, when due, the purchase price of Bonds presented to the Trustee for purchase pursuant to the terms of the Indenture.

K. The issuance, sale and delivery of the Bonds and the execution and delivery of this Agreement and the Indenture have been in all respects duly and validly authorized in accordance with the Act and the Bond Resolution.

L. The Company and The Bank of New York have agreed to enter into the Standby Bond Purchase Agreement, dated as of November 1, 1994, as the Standby Purchase Agreement, for the benefit of the Owners from time to time of the Bonds, in support of certain purchase obligations under the Indenture.

M. Pursuant to the Standby Purchase Agreement, the Company agrees to pay or cause the payment of certain amounts to each Bank as repayment of the disbursements made by such Bank pursuant to the Standby Purchase Agreement.

N. The Company and AMBAC Indemnity Corporation, a Wisconsin stock insurance company, as Insurer, have agreed to enter into that certain Insurance Agreement, dated as of November 1, 1994, pursuant to which the Insurer is to issue its Municipal Bond Insurance Policy to guarantee payment of the principal of the Bonds upon the stated maturity thereof, the redemption price of the Bonds upon certain mandatory redemptions and interest on the Bonds as the same accrues and becomes due and payable.

O. The Company has issued and delivered the Company's First Mortgage Bonds to the Trustee to evidence and secure the payment of certain of its obligations hereunder.

In consideration of the respective representations and agreements contained in this Agreement, the parties hereto agree as follows:

ARTICLE I

DEFINITIONS

All words and terms used but not otherwise defined in this Agreement, including the recitals hereto, shall for all purposes of this Agreement have the meanings specified in Article I of the Indenture, unless the context clearly requires otherwise. In addition, the following words and terms shall have the following meaning when used in this Agreement:

"Indenture" means the Trust Indenture, dated as of November 1, 1994, between the Issuer and The First National Bank of Chicago, a national banking association, as trustee, relating to the issuance of the \$9,365,000 Carbon County, Utah, Pollution Control Revenue

Refunding Bonds (PacifiCorp Project) Series 1994, as such Trust Indenture may be supplemented and amended from time to time as therein permitted.

The words "hereof", "hereunder" and other words of similar import refer to this Agreement as a whole.

ARTICLE II

REPRESENTATIONS, WARRANTIES AND AGREEMENTS

Section 2.01. Representations, Warranties and Agreements of Issuer. The Issuer represents, warrants and agrees that:

(a) The Issuer is a political subdivision of the State, duly organized and validly existing under the Constitution and laws of the State.

(b) Under the Act, the Issuer has the power to enter into the transactions contemplated by this Agreement and the Indenture and to carry out its obligations hereunder and thereunder, including the issuance and sale of the Bonds. By proper action of its governing body, the Issuer has been duly authorized to execute and deliver this Agreement and the Indenture and to issue and sell the Bonds.

(c) The aggregate principal amount of the Bonds authorized to be issued under the Indenture for the purpose of refunding the Prior Bonds does not exceed the aggregate principal amount of the Prior Bonds now outstanding.

(d) The Prior Agreement and the Prior Indenture are each in full force and effect and have not been amended or supplemented.

(e) Under existing statutes and decisions, no taxes on income or profits are imposed on the Issuer.

(f) The proceeds of the sale of the Bonds (i) will be deposited with the Prior Trustee for deposit into the Prior Bond Fund to provide a portion of the moneys necessary for the Refunding and (ii) will be applied by the Prior Trustee to redeem the Prior Bonds pursuant to the Prior Indenture on the Redemption Date. The Prior Bonds are now outstanding in the principal amount of \$9,365,000. All of the Prior Bonds have been called for redemption on the Redemption Date.

(g) The Bonds are to be issued under and secured by the Indenture, pursuant to which certain of the Issuer's interest in this Agreement and the revenues derived by the Issuer pursuant to this Agreement will be pledged and assigned to the Trustee as security for payment of the principal of and premium, if any, and interest on the Bonds.

(h) Neither the execution and delivery of this Agreement or the Indenture, the issuance and sale of the Bonds, the consummation of the transactions contemplated hereby and thereby, nor the fulfillment of or compliance with the terms and conditions of this Agreement, the Indenture or the Bonds conflicts with or results in a breach of the terms, conditions or provisions of any restriction or any agreement or instrument to which the Issuer is now a party or by which it is bound, or constitutes a default under any of the foregoing.

(i) The Issuer has not assigned or pledged and will not assign or pledge its interest in this Agreement other than to secure the Bonds.

(j) The Project is located within the boundaries of the Issuer.

(k) To the knowledge of the Issuer, after due inquiry, no litigation is pending or threatened against the Issuer to restrain or enjoin the issuance or sale of the Bonds or in any way affecting any authority for or the validity of the Bonds, the Indenture, this Agreement or the existence or powers of the Issuer or the right of the Issuer under the Act to refinance a portion of the costs of the Project through the issuance of the Bonds.

(l) To the knowledge of the Issuer, after due inquiry, no event has occurred and no condition exists which, upon the issuance of the Bonds, would constitute an event of default on the part of the Issuer under the Prior Indenture.

(m) The Issuer will not knowingly take or omit to take any action reasonably within its control the taking or omission of which would adversely affect the Tax-Exempt status of the Bonds. The Issuer will file or cause to be filed with the United States Department of Treasury the information required by Section 149(e) of the Code.

(n) A public hearing relating to the Refunding for the Project was held on September 21, 1994, following public notice thereof, pursuant to Section 147(f) of the Code, and following such public hearing, on November 2, 1994, the Board of County Commissioners of the Issuer, being the applicable elected representatives of the Issuer within the meaning of Section 147(f) of the Code, adopted a resolution approving the issuance of the Bonds and the plan of financing relating to the refinancing of the Project.

(o) Within the meaning of the Utah Public Officers' and Employees' Ethics Act, Title 67, Chapter 16, Utah Code Annotated 1953, as amended, no "public officer" or "public employee" of the Issuer (including, without limitation, any member of the Board of County Commissioners of the Issuer) is an officer, director, agent, employee, or owner of a "substantial interest" in the Company, or will receive or has agreed to receive any compensation in connection with any of the transactions contemplated by the Bond Resolution, the Bonds, this Agreement and the Indenture. Within the meaning of the County Officers and Employees Disclosure Act, Title 17,

Chapter 16a, Utah Code Annotated 1953, as amended, no "appointed officer" or "elected officer" of the Issuer (including, without limitation, any member of the Board of County Commissioners of the Issuer) is an officer, director, agent, employee, or owner of a "substantial interest" in the Company, or will receive or has agreed to receive any compensation in connection with any of the transactions contemplated by the Bond Resolution, the Bonds, this Agreement and the Indenture.

Concurrently with the initial authentication and delivery of the Bonds under the Indenture, the Issuer shall execute and deliver a certificate reaffirming the foregoing representations, warranties and agreements as of the date thereof.

Section 2.02. Representations, Warranties and Agreements of Company.
The Company represents, warrants and agrees that:

(a) It is a corporation duly organized and validly existing under the laws of the State of Oregon, and is duly qualified as a foreign corporation in good standing in the State, is not in violation of any provision of its Second Restated Articles of Incorporation or its Bylaws, in each case as the same have been amended, has full corporate power to own its properties and conduct its business, has not received notice and has no reasonable grounds to believe that it is in violation of any laws in any manner material to its obligations under this Agreement, has the corporate power to enter into, and by proper corporate action has duly authorized the execution and delivery of, this Agreement and the Tax Certificate, and has the power to issue and pledge the First Mortgage Bonds as contemplated herein, in the Company Mortgage and in the Pledge Agreement.

(b) Neither the execution and delivery of this Agreement or the Tax Certificate, the consummation of the transactions contemplated hereby, nor the fulfillment of or compliance with the terms and conditions of this Agreement (including, without limitation, the issuance and delivery of the First Mortgage Bonds and the execution and delivery of the Pledge Agreement) or the Tax Certificate conflicts with or will result in a breach of any of the terms, conditions or provisions of any law or judgment to which the Company or its property or assets are subject or of any corporate restriction contained in its Second Restated Articles of Incorporation or its Bylaws, in each case as the same have been amended, or any agreement or instrument to which the Company is now a party or by which it is bound, or constitutes, with or without the giving of notice or lapse of time or both, a default under any of the foregoing, or results in the creation or imposition of any lien, charge or encumbrance whatsoever upon any of the property or assets of the Company (other than any lien, charge or encumbrance which may be created in favor of the Trustee by the Company Mortgage and the Company Supplemental Indenture or in favor of each Bank (including, but not limited to, the Agent Bank) or each Obligor on an Alternate Liquidity Facility (including, but not limited to, the Agent Obligor on an Alternate Liquidity Facility) on any Bonds purchased by or pledged to a Bank or an Obligor on an Alternate Liquidity Facility or on the Company's right to receive certain moneys

under the Indenture) under the terms of any instrument or agreement other than the Indenture.

(c) This Agreement has been duly and validly authorized, executed and delivered by the Company and is a legal, valid and binding obligation of the Company, enforceable in accordance with its terms, except as enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium, usury or other similar laws affecting the rights of creditors generally, equitable principles relating to the availability of remedies and principles of public or governmental policy limiting the enforceability of the indemnification and contribution provisions.

(d) Other than the orders of the Idaho Public Utilities Commission, the Public Service Commission of Montana, the Public Utility Commission of Oregon, the Public Service Commission of Utah and the Public Service Commission of Wyoming, all of which orders will have been received and be in effect prior to the initial authentication and delivery of the Bonds, no consent, approval, authorization or order of, or registration with, any court or governmental or regulatory agency or body is required with respect to the Company for the execution, delivery and performance by the Company of this Agreement and the Tax Certificate.

(e) The Company has received an executed counterpart of the Indenture and hereby consents to and approves the provisions thereof.

(f) The information relating to the Project (other than estimates) furnished by the Company in writing to Chapman and Cutler, as Bond Counsel, in connection with the issuance by the Issuer of the Bonds, is, to the best of the Company's knowledge, true and correct; and all estimates so furnished, and the assumptions upon which such estimates were based, are, in the judgment of the Company, reasonable and based upon the best information available to the Company.

(g) The Department of Social Services, Division of Health, of the State has certified that the air and water pollution control facilities constituting a part of the Project, as designed, are in furtherance of the purpose of abating or controlling atmospheric pollutants or contaminants and water pollution, as the case may be. Such certification is in full force and effect, and has not been modified or rescinded.

(h) The Prior Agreement and the Prior Indenture are in full force and effect and have not been amended or supplemented.

(i) No event has occurred and is continuing under the provisions of the Prior Indenture that now constitutes, or with the lapse of time or the giving of notice, or both, would constitute, an event of default under the Prior Indenture.

(j) The Company has given the Prior Trustee and the Issuer notice pursuant to the provisions of the Prior Agreement of the Company's intent to prepay the

amounts payable thereunder to provide for the redemption of the Prior Bonds on the Redemption Date.

(k) The aggregate principal amount of Bonds authorized to be issued under the Indenture does not exceed the aggregate principal amount of the Prior Bonds now Outstanding.

(l) The Company does not, as of the date of issue of the Bonds, reasonably expect any use of moneys derived from the proceeds of the Bonds or any investment or reinvestment thereof or from the sale of the Project which would cause the Bonds to be classified as "arbitrage bonds" within the meaning of Section 148 of the Code.

(m) All of the proceeds of the Prior Bonds, including the investment earnings thereon, have been disbursed in accordance with the provisions of the Prior Indenture and the Prior Agreement, and there are no proceeds of the Prior Bonds, or investment earnings therefrom, being held by the Prior Trustee under the Prior Indenture.

(n) The Pollution Control Facilities that comprise the Project constitute Exempt Facilities and consist of those facilities described in *Exhibit A* hereto (as such *Exhibit A* is from time to time amended or supplemented in accordance with Section 3.04 hereof), and the Company shall not consent to any changes in the Project which would adversely affect the qualification of the Project as a "project" under the Act or adversely affect the Tax-Exempt status of the Bonds.

(o) Substantially all of the proceeds of the Prior Bonds have been expended for the purpose of acquiring, constructing and improving the Project, which constitutes Exempt Facilities. None of the proceeds of the Prior Bonds were used (i) to acquire land (or an interest therein) or (ii) to acquire any property (or an interest therein) unless the first use of such property was pursuant to such acquisition, all within the meaning of Section 147 of the Code.

(p) The average maturity of the Bonds does not exceed 120% of the weighted average of the reasonably expected remaining economic life of the Project.

(q) All of the Prior Bonds will be redeemed within 90 days of the date of the initial authentication and delivery of the Bonds, and all of the proceeds of the sale of the Bonds will be spent within 90 days of the initial authentication and delivery of the Bonds.

(r) The Project is (i) designed to meet applicable federal, state and local requirements for the control of pollution or the disposal of solid waste, (ii) to be used solely for purposes contemplated by the Act, and (iii) located within the boundaries of the Issuer.

(s) The representations, warranties and covenants of the Company set forth in the Project Certificate are incorporated herein by reference and are hereby made a part of this Loan Agreement as if set forth herein.

(t) The Company will cooperate with the Issuer in filing or causing to be filed with the United States Department of Treasury the information required by Section 149(e) of the Code.

(u) Pursuant to the Agreement and Plan of Reorganization and Merger dated as of August 12, 1987, as amended, and by operation of law, the Company is the successor corporation to Utah Power & Light Company and has assumed the obligations and rights of Utah Power & Light Company under the Prior Agreement.

(v) The Company will pay upon valid presentation the principal of and premium, if any, and interest to the Redemption Date on all Prior Bonds that are validly presented to the Company for payment after the Prior Trustee has paid to the Company, in accordance with Section 5.11 of the Prior Indenture, any moneys held in trust for the payment of the principal of and premium, if any, and interest on the Prior Bonds.

Concurrently with the initial authentication and delivery of the Bonds under the Indenture, the Company shall execute and deliver a certificate reaffirming the foregoing representations, warranties and agreements as of the date thereof.

ARTICLE III

ISSUANCE OF THE BONDS; THE LOAN; DISPOSITION OF PROCEEDS OF THE BONDS; THE PROJECT

Section 3.01. Issuance of Bonds. In order to refinance the Project by effecting the Refunding, the Issuer shall issue the Bonds under and in accordance with the Act and pursuant to the Indenture. The Company hereby approves the issuance of the Bonds and all terms and conditions thereof.

Section 3.02. Issuance of Other Obligations. The Issuer and the Company expressly reserve the right to enter into, to the extent permitted by law, an agreement or agreements other than this Agreement with respect to the issuance by the Issuer, under an indenture or indentures other than the Indenture, of obligations to provide additional funds to pay costs of facilities in addition to the Pollution Control Facilities or to provide for the refunding of all or any principal amount of the Bonds. Such obligations will not be entitled to the benefits of the Indenture, the Insurance Policy, the Standby Purchase Agreement or any Alternate Liquidity Facility.

Section 3.03. The Loan; Disposition of Bond Proceeds. (a) The Issuer shall lend to the Company the proceeds of the issuance and sale of the Bonds for the purposes

specified in Section 3.01 of this Agreement. The Issuer and the Company shall, simultaneously with the delivery of the Bonds, cause such proceeds, other than accrued interest, if any, to be transferred to the Prior Trustee for deposit into the Prior Bond Fund to be used to pay the principal amount of the Prior Bonds upon their redemption on the Redemption Date. Because such Bond proceeds will not be sufficient to provide for the payment of the accrued interest on the Prior Bonds upon the redemption thereof, the Company shall, on or before the Business Day prior to the Redemption Date, at its own expense and without any right of reimbursement in respect thereof, pay to the Prior Trustee for deposit into the Prior Bond Fund, all additional amounts necessary to effect the redemption of the Prior Bonds on the Redemption Date and to prepay all other amounts due or to become due pursuant to the Prior Agreement.

The Company shall promptly pay all Costs when due from moneys other than the proceeds of the sale of the Bonds or moneys provided pursuant to the provisions of the Standby Purchase Agreement or an Alternate Liquidity Facility, as the case may be.

(b) The Issuer shall establish the Bond Fund with the Trustee in accordance with Section 6.01 of the Indenture. The proceeds of the issuance and sale of the Bonds constituting accrued interest, if any, shall be deposited into the Bond Fund.

Section 3.04. Project Changes. The Company may supplement or amend the Plans and Specifications relating to the Project as duly certified by an Authorized Company Representative (including additions thereto or omissions therefrom), *provided* that no such supplement or amendment shall change the description of the Project set forth in *Exhibit A* to this Loan Agreement or change the function of any principal component of the Project described in *Exhibit A* to this Loan Agreement, unless, in either case, the Trustee and the Issuer receive an opinion of Bond Counsel to the effect that, after giving effect to such change, the Project will constitute a "project" under the Act and that such change will not adversely affect the Tax-Exempt status of the Bonds. In the event of a supplement or amendment affecting the description of the Project or the function of any principal component of the Project, the Company and the Issuer shall amend *Exhibit A* to this Loan Agreement to reflect such supplement or amendment, which supplement or amendment shall not be considered as an amendment to this Agreement requiring the consent of any Owner, the Trustee or the Insurer for the purposes of Article XII of the Indenture. The Company may identify any proprietary information in the Plans and Specifications, and the Issuer agrees, to the extent permitted by law, to keep such information confidential. The Issuer agrees to provide the Company, to the extent permitted by law, with at least ten (10) days' notice prior to the disclosure of any information identified by the Company as proprietary.

Section 3.05. Project Subject to Prior Agreement. The Company and the Issuer hereby recognize and agree that following the execution and delivery hereof and until the completion of the Refunding, the Prior Agreement shall continue and remain in effect with respect to the Project in accordance with the terms thereof.

ARTICLE IV

LOAN PAYMENTS; PAYMENTS TO REMARKETING AGENT AND TRUSTEE; STANDBY PURCHASE AGREEMENT AND ALTERNATE LIQUIDITY FACILITIES; FIRST MORTGAGE BONDS AND SUBSTITUTE COLLATERAL; OTHER OBLIGATIONS

Section 4.01. Loan Payments. (a) As and for repayment of the loan made to the Company by the Issuer pursuant to Section 3.03 hereof, the Company shall pay to the Trustee for the account of the Issuer an amount equal to the aggregate principal amount of and the premium, if any, on the Bonds from time to time Outstanding and, as interest on its obligation to pay such amount, an amount equal to interest on the Bonds, such amounts to be paid in installments due on the dates, in the amounts and in the manner provided in the Indenture for the payment of the principal of and premium, if any, and interest on the Bonds, whether at maturity, upon redemption, acceleration or otherwise; *provided, however,* that the obligation of the Company to make any such payment hereunder shall be reduced by the amount of any reduction under the Indenture of the amount of the corresponding payment required to be made by the Issuer thereunder; and *provided further* that the obligation of the Company to make any payment hereunder shall be deemed to be satisfied and discharged to the extent of the corresponding payment made by the Company of principal of or premium, if any, or interest on the First Mortgage Bonds.

(b) In the event the Company shall fail to make any payment required by Section 4.01(a) hereof with respect to the principal of and premium, if any, and interest on any Bond, the payment so in default shall continue as an obligation of the Company until the amount in default shall have been fully paid, and the Company will pay interest on any overdue amount with respect to principal of such Bond and, to the extent permitted by law, on any overdue amount with respect to premium, if any, and interest on such Bond, at the interest rate borne by such Bond until paid.

Section 4.02. Payments of Purchase Price. (a) The Company shall pay or cause to be paid for its account to the Trustee amounts equal to the amounts to be paid by the Trustee as the purchase price for such Bonds pursuant to Section 3.01 and Section 3.02 of the Indenture in respect of Outstanding Bonds, such amounts to be paid to the Trustee on the dates such payments are to be made pursuant to Section 3.01 and Section 3.02 of the Indenture; *provided, however,* that the obligation of the Company to make any such payment hereunder shall be reduced by the amount of any moneys held by the Trustee under the Indenture and available for such payment; *provided further* that the obligation of the Company to make any payment hereunder shall be deemed to be satisfied and discharged to the extent of the corresponding payment made by a Bank to the Trustee under the Standby Purchase Agreement or by an Obligor on an Alternate Liquidity Facility to the Trustee under such Alternate Liquidity Facility.

(b) Except as otherwise permitted by Section 4.03 hereof, the Company shall provide for the payment of the amounts to be paid by the Trustee pursuant to Section 3.01 and Section 3.02 of the Indenture by providing the Standby Purchase Agreement or an

Alternate Liquidity Facility, as the case may be, to the Trustee. The Company hereby irrevocably authorizes and directs the Trustee to take such actions as may be necessary in accordance with the provisions of the Indenture and the Standby Purchase Agreement or an Alternate Liquidity Facility to obtain the moneys necessary to pay the purchase price for Bonds payable under Section 3.01 and Section 3.02 of the Indenture if and when due.

Section 4.03. Standby Purchase Agreement; Alternate Liquidity Facility.

(a) At its option, the Company may at any time (with not less than 20 days' prior written notice received by the Trustee and copies of such notice given to the Agent Bank or the Agent Obligor on an Alternate Liquidity Facility, as the case may be, and the Remarketing Agent) (i) provide for the delivery to the Trustee on any Business Day of an Alternate Liquidity Facility or (ii) terminate the Standby Purchase Agreement or any Alternate Liquidity Facility then in effect, but only if the Company shall, on or before the date of delivery of the Alternate Liquidity Facility (which shall not be later than the effective date thereof) or on or before the effective date of the termination of the Standby Purchase Agreement or Alternate Liquidity Facility then in effect, simultaneously deliver to the Trustee (which delivery must occur prior to 9:30 a.m., New York, New York time, on the effective date of such Alternate Liquidity Facility or such termination, unless a later time on such date shall be acceptable to the Trustee):

(1) an opinion of Bond Counsel stating that the delivery of such Alternate Liquidity Facility or the termination of the Standby Purchase Agreement or the Alternate Liquidity Facility then in effect (i) complies with the terms hereof and (ii) will not adversely affect the Tax-Exempt status of the Bonds;

(2) a certificate of an Authorized Company Representative as to whether the Bonds are then rated by either Moody's or S&P, or both; and

(3) either

(i) written evidence from Moody's, if the Bonds are then rated by Moody's, and from S&P, if the Bonds are then rated by S&P, in each case to the effect that such rating agency has reviewed the proposed Alternate Liquidity Facility or the proposed termination of the Standby Purchase Agreement or Alternate Liquidity Facility then in effect, as the case may be, and that the delivery of the proposed Alternate Liquidity Facility or the proposed termination of the Standby Purchase Agreement or the Alternate Liquidity Facility then in effect will not, by itself, result in a reduction, suspension or withdrawal of such rating agency's short-term rating or ratings of the Bonds; or

(ii) written evidence from the Insurer to the effect that the Insurer has reviewed the proposed Alternate Liquidity Facility or the proposed termination of the Standby Purchase Agreement or Alternate Liquidity Facility then in effect, as the case may be, and finds the same to be acceptable to the Insurer.

(b) The Company may, at its election, but only with the written consent of each Bank or each Obligor on an Alternate Liquidity Facility, as the case may be, provide for one or more Substitute Standby Purchase Agreements or one or more extensions of the Standby Purchase Agreement or Alternate Liquidity Facility then in effect, as the case may be, for any period commencing after its then-current expiration date.

(c) An assignment or assumption of a Bank's interest and obligations, or any portion thereof, under the Standby Purchase Agreement to or by a bank or other institution that is not at the time already a Bank thereunder shall be deemed to be the delivery of an Alternate Liquidity Facility for purposes of Section 4.03(a) hereof.

(d) Anything in this Agreement or the Indenture to the contrary notwithstanding, no Alternate Liquidity Facility or Substitute Standby Purchase Agreement may be provided pursuant to this Section 4.03 which:

(i) so long as the interest rate borne by the Bonds is a Daily Interest Rate or a Weekly Interest Rate, reduces the Interest Coverage Period to a period shorter than 35 days; or

(ii) so long as the interest rate borne by the Bonds is a Term Interest Rate, reduces the Interest Coverage Period to a period less than such minimum period as may be approved by each Rating Agency then maintaining a rating on the Bonds.

Section 4.04. Issuance, Delivery and Surrender of First Mortgage Bonds and Substitute Collateral. (a) The obligation of the Company pursuant to Section 4.01 hereof to repay the loan made to it by the Issuer pursuant to Section 3.03 hereof shall be secured by the First Mortgage Bonds or, subject to Section 4.04(f) hereof, by Substitute Collateral.

(b) The First Mortgage Bonds and any Substitute Collateral shall (i) mature on the same date and in the same principal amount as the Bonds, (ii) bear interest at the same rate and be payable at the same times as the Bonds, (iii) contain redemption provisions correlative to the provisions of Section 4.02 and Section 4.03 of the Indenture, and (iv) subject to the provisions of Section 4.04(c) hereof, require payments of the principal thereof and premium, if any, and interest thereon to be made to the Trustee for the account of the Issuer. Concurrently with the initial authentication and delivery by the Issuer of the Bonds, the First Mortgage Bonds shall be delivered to and registered in the name of the Trustee (or, subject to Section 5.11 of the Indenture, the Trustee's nominee) for the account of the Issuer and the benefit of the Owners from time to time of the Bonds and shall be held, voted, transferred and surrendered by the Trustee subject to and in accordance with the respective provisions of this Agreement, the Indenture and the Pledge Agreement. Any moneys received by the Trustee with respect to the First Mortgage Bonds shall be used to make the corresponding payment then due of principal of and premium, if any, or interest on the Bonds in accordance with the terms of the Bonds and the Indenture. Any proceeds of

the First Mortgage Bonds in excess of the amounts necessary to pay in full the principal of and premium, if any, or interest on the Bonds shall be remitted to the Company.

(c) The Company shall receive a credit against its obligations to make any payment of principal of and premium, if any, or interest on the First Mortgage Bonds described in Section 4.04(b) hereof (whether at maturity, upon redemption or otherwise), and such obligations shall be fully or partially, as the case may be, satisfied and discharged, in an amount equal to the amount, if any, paid by the Company under Section 4.01 hereof, or otherwise satisfied or discharged, in respect of the principal of and premium, if any, or interest on the Bonds; *provided, however*, that the Company shall receive no such credit for any payment with respect to any Bond made by the Insurer. The obligations of the Company to make such payment of principal of and premium, if any, or interest on the First Mortgage Bonds shall be deemed to have been reduced by the amount of such credit.

(d) In view of the pledge and assignment of the First Mortgage Bonds in accordance with Section 4.05 hereof, the Issuer agrees that (i) the First Mortgage Bonds shall be issued and delivered to, registered in the name of and held by the Trustee (or, subject to Section 5.11 of the Indenture, the Trustee's nominee) for the benefit of the Owners from time to time of the Bonds, and the Company shall make all payments of principal of and premium, if any, and interest on the First Mortgage Bonds to the Trustee as the registered owner thereof; (ii) the Indenture shall provide that the Trustee shall not sell, assign or transfer the First Mortgage Bonds except to a successor trustee under the Indenture and shall surrender First Mortgage Bonds to the Company Mortgage Trustee in accordance with the provisions of Section 4.04(e) and Section 4.04(f) hereof; and (iii) the Company may take such actions as it shall deem to be desirable to effect compliance with such restrictions on transfer, including the placing of an appropriate legend on each First Mortgage Bond and the issuance of stop-transfer instructions to the Company Mortgage Trustee or any other transfer agent under the Company Mortgage.

(e) At the time any Bonds cease to be Outstanding (other than by reason of the payment of First Mortgage Bonds or by reason of the payment of principal of or interest on the Bonds by the Insurer and other than those Bonds in lieu of or in exchange or substitution for which other Bonds shall have been authenticated and delivered), the Issuer shall cause the Trustee to surrender to the Company Mortgage Trustee a corresponding principal amount of First Mortgage Bonds bearing interest at the same rate and maturing on the same date as such Bonds.

(f) On any Business Day the Company may provide for the release of its First Mortgage Bonds by delivering Substitute Collateral to the Trustee to secure the obligation of the Company to repay the loan made to it pursuant to Section 3.03 hereof, but only if the Company shall, on the date of delivery of such Substitute Collateral, simultaneously deliver to the Trustee:

(i) an opinion of Bond Counsel stating that delivery of such Substitute Collateral and release of the First Mortgage Bonds (1) complies with the terms hereof and (2) will not adversely affect the Tax-Exempt status of the Bonds;

(ii) written evidence from the Insurer and from each Bank to the effect that they reviewed the proposed Substitute Collateral and find the same to be acceptable; and

(iii) written evidence from Moody's, if the Bonds are then rated by Moody's, and from S&P, if the Bonds are then rated by S&P, in each case to the effect that such rating agency has reviewed the Substitute Collateral and that the release of the First Mortgage Bonds and the substitution of the Substitute Collateral for the First Mortgage Bonds will not, by itself, result in a reduction, suspension or withdrawal of such rating agency's rating or ratings of the Bonds.

The Indenture shall provide that, to the extent that Substitute Collateral is delivered to the Trustee in compliance with this Section 4.04(f), the Trustee shall surrender to the Company Mortgage Trustee a corresponding principal amount of First Mortgage Bonds.

Section 4.05. Payments Assigned; Obligation Absolute. It is understood and agreed that all Loan Payments and all payments to be made by the Company on the First Mortgage Bonds are, by the Indenture and the Pledge Agreement, pledged and assigned by the Issuer to the Trustee, and that all rights and interests of the Issuer hereunder (except for the rights of the Issuer under Section 4.06, Section 4.08, Section 5.03, Section 5.06, Section 5.07, Section 5.08, Section 7.05 and Section 7.07 hereof and any rights of the Issuer to receive notices, certificates, requests, requisitions, directions and other communications hereunder), including the right to delivery of the First Mortgage Bonds, are pledged and assigned to the Trustee pursuant to the Indenture and the Pledge Agreement. The Company assents to such pledge and assignment and agrees that the obligation of the Company to make the Loan Payments and payments to the Trustee under Section 4.02 hereof and to make the payments on the First Mortgage Bonds shall be absolute, irrevocable and unconditional and shall not be subject to cancellation, termination or abatement, or to any defense other than payment, or to any right of setoff, counterclaim or recoupment arising out of any breach under this Agreement or the Indenture or otherwise by the Company, the Trustee, the Remarketing Agent, the Insurer, any Bank, the Agent Bank (or any Obligor on an Alternate Liquidity Facility and the Agent Obligor on an Alternate Liquidity Facility, as the case may be) or any other party, or out of any obligation or liability at any time owing to the Company by the Issuer, the Trustee, the Remarketing Agent, the Insurer, any Bank, the Agent Bank (or any Obligor on an Alternate Liquidity Facility and the Agent Obligor on an Alternate Liquidity Facility, as the case may be) or any other party, or out of any failure or inability of the Trustee for any reason to realize under or upon the Standby Purchase Agreement or an Alternate Liquidity Facility provided by the Company under Section 4.03 hereof, and, further, that the Loan Payments and the other payments due hereunder and on the First Mortgage Bonds shall continue to be payable at the times and in the amounts herein and therein specified whether or not the Project, or any portion thereof, shall have been destroyed by fire or other casualty, or title thereto, or the use thereof, shall have been taken by the exercise of the power of eminent domain, and that there shall be no abatement of or diminution in any such payments by reason thereof, whether or not the Project shall be used or useful and whether or not any applicable laws,

regulations or standards shall prevent or prohibit the use of the Project or for any other reason.

Section 4.06. Payment of Expenses. The Company shall pay all of the Administration Expenses of the Issuer, the Trustee, the Paying Agent, the Registrar, Moody's and S&P under the Indenture and of the Remarketing Agent under the Remarketing Agreement directly to each such entity. The Company shall also pay all of the expenses of the Prior Trustee in connection with the Refunding and all other reasonable fees and expenses incurred in connection with the issuance of the Bonds, including, but not limited to, all costs associated with any discontinuance of the book-entry system described in Section 2.10 of the Indenture.

Section 4.07. Indemnification. The Company releases the Trustee and the Registrar and their respective officers, agents, servants and employees from, agrees that the Trustee and the Registrar and their respective officers, agents, servants and employees shall not be liable for, and agrees to indemnify and hold free and harmless the Trustee and the Registrar and their respective officers, agents, servants and employees from and against, any liability for any loss or damage to property or any injury to or death of any person that may be occasioned by any cause whatsoever pertaining to the Project, except in any case as a result of the negligence or willful misconduct of the Trustee and the Registrar and their respective officers, agents, servants and employees.

The Company will indemnify and hold free and harmless the Trustee and the Registrar and their respective officers, agents, servants and employees from and against any loss, claim, damage, tax, penalty, liability, disbursement, litigation or other expenses, attorneys' fees and expenses or court costs arising out of, or in any way relating to, the execution or performance of this Agreement, the Tax Certificate, the issuance or sale of the Bonds, the Refunding, acceptance or administration of the trust under the Indenture or any other cause whatsoever pertaining to this Agreement, the Tax Certificate, the Indenture or the Insurance Policy, except in any case as a result of the negligence or willful misconduct of the Trustee and the Registrar or their respective officers, agents, servants and employees.

Section 4.08. Payment of Taxes and Charges in Lieu Thereof. (a) The Company covenants and agrees that it will, from time to time, promptly pay and discharge or cause to be paid and discharged when due its share of all taxes, assessments and other governmental charges lawfully imposed upon the Project or any part thereof or upon income and profits thereof or any payments hereunder or on the First Mortgage Bonds, including, but not limited to, any taxes (or charges in lieu of taxes) pursuant to Section 11-17-10 of the Act.

(b) The Company shall pay or cause to be satisfied and discharged or make adequate provision to satisfy and discharge (including the provisions of adequate bonding therefor) within 60 days after the same shall accrue, any lien or charge upon the Loan Payments or payments under Section 4.02 hereof or amounts payable on the First Mortgage Bonds, and all lawful claims or demands for labor, materials, supplies or other charges which, if unpaid, might be or become a lien thereon; *provided* that the Company may, at its

expense and in its own name and behalf or in the name and behalf of the Issuer, in good faith contest any such taxes, assessments and other charges and, in the event of any such contest, may permit the taxes, assessments or other charges so contested to remain unpaid during the period of such contest and any appeal therefrom; *provided further* that during such period enforcement of such contested item is effectively stayed, unless by nonpayment of any such items the lien of the Indenture as to the amounts payable hereunder or on the First Mortgage Bonds will be materially endangered, in which event the Company shall promptly pay and cause to be satisfied and discharged all such unpaid items. The Issuer will cooperate fully with the Company in any such contest. In the event that the Company shall fail to pay any of the foregoing items required by this Section to be paid by the Company, the Issuer or the Trustee may (but shall be under no obligation to) pay the same, and any amounts so advanced therefor by the Issuer or Trustee shall become an additional obligation of the Company to the party making the advance. The Company agrees to repay the amounts so advanced, from the date thereof, together (to the extent permitted by law) with interest thereon until paid at a rate per annum which is one percentage point greater than the highest rate per annum borne by any of the Bonds.

Section 4.09. Compliance with Prior Agreement. The Company hereby confirms its obligations under the Prior Agreement to furnish any moneys required to be deposited with the Prior Trustee under the Prior Indenture in order to redeem the Prior Bonds on the Redemption Date, to the extent that the proceeds of the Bonds on deposit in the Prior Bond Fund, together with any investment earnings thereon, is less than the amount required to pay the principal of and applicable redemption premium and interest on the Prior Bonds upon their redemption on the Redemption Date, in accordance with the terms and conditions of the Prior Indenture.

ARTICLE V

SPECIAL COVENANTS

Section 5.01. Maintenance of Existence; Conditions Under Which Exceptions Permitted. The Company shall maintain in good standing its corporate existence as a corporation organized under the laws of one of the states of the United States or the District of Columbia and will remain duly qualified to do business in the State, will not dissolve or otherwise dispose of all or substantially all of its assets and will not consolidate with or merge into another corporation; *provided, however*, that the Company may, without violating the foregoing, undertake from time to time any one or more of the following:

- (a) consolidate with or merge into another domestic corporation (*i.e.*, a corporation incorporated and existing under the laws of one of the states of the United States or of the District of Columbia) or sell or otherwise transfer to another domestic corporation all or substantially all of its assets as an entirety and thereafter dissolve, *provided* the resulting, surviving or transferee corporation, as the case may be, shall be (i) the Company or (ii) a corporation, qualified to do business in the State as a

foreign corporation or incorporated and existing under the laws of the State, which, as a result of the transaction, shall have assumed (either by operation of law or in writing) all of the obligations of the Company hereunder, under the Liquidity Agreement and under the First Mortgage Bonds; or

(b) convey all or substantially all of its assets to one or more wholly-owned subsidiaries of the Company so long as the Company shall remain in existence and primarily liable on all of its obligations hereunder and the subsidiary or subsidiaries to which such assets shall be so conveyed shall guarantee in writing the performance of all of the Company's obligations hereunder, under the Liquidity Agreement and under the First Mortgage Bonds.

Section 5.02. Permits or Licenses. In the event that it may be necessary for the proper performance of this Agreement on the part of the Company or the Issuer that any application or applications for any permit or license to do or to perform certain things be made to any governmental or other agency by the Company or the Issuer, the Company and the Issuer each shall, upon the request of either, execute such application or applications.

Section 5.03. Arbitrage Covenant. (a) The Company covenants for the benefit of the Owners of the Bonds and the Issuer that the proceeds of the Bonds, the earnings thereon and any other moneys on deposit in any fund or account maintained in respect of the Bonds, whether held under the Indenture or otherwise (whether such moneys were derived from the proceeds of the sale of the Bonds or from other sources), will not be used in a manner which would cause the Bonds to be "arbitrage bonds" within the meaning of Section 148 of the Code and further covenants to provide the Issuer with all necessary representations as to facts, estimates, expectations and circumstances to enable the Issuer to comply with Section 5.07 of the Indenture.

(b) The Company covenants to comply with the provisions of Section 148 of the Code and the related United States Treasury Regulations, including temporary and proposed regulations, during the term of the Bonds, including, but not limited to, the provisions for rebate of certain earnings to the United States to the extent the same apply to the Bonds, in accordance with the Tax Certificate.

(c) Subject to Article VII of the Indenture, in the event that moneys provided by the Company to pay principal of or premium, if any, or interest on the Bonds ("*Company Payments*") are deposited pursuant to the Indenture into the Bond Fund, the Liquidity Fund or any other sinking fund with respect to the Bonds (the "*Funds*") prior to the second day next preceding the Bond Payment Date with respect to which such deposit is made, the Company will cause such Company Payments to be invested in accordance with the terms and conditions of the Tax Certificate.

Section 5.04. Financing Statements. The Company shall, to the extent required by law, file and record, refile and re-record, or cause to be filed and recorded, refiled and re-recorded, all documents or notices, including the financing statements and continuation statements, referred to in Section 5.04 and Section 5.05 of the Indenture. The Issuer shall

cooperate fully with the Company in taking any such action. Concurrently with the execution and delivery of the Bonds, the Company shall cause to be delivered to the Trustee the opinion of counsel required pursuant to Section 5.05(a) of the Indenture.

Section 5.05. Covenants With Respect to Tax-Exempt Status of the Bonds. The Company covenants that it (a) has not taken, and will not take or permit to be taken on its behalf, any action which would adversely affect the Tax-Exempt status of the Bonds and (b) will take, or require to be taken, such actions as may, from time to time, be required under applicable law or regulation to continue to cause the Bonds to be Tax-Exempt.

Section 5.06. Indemnification of Issuer. The Company agrees that the Issuer, its elected or appointed officials, officers, agents, special legal counsel, servants and employees, shall not be liable for, and agrees that it will at all times indemnify and hold free and harmless the Issuer, its elected or appointed officials, officers, agents, legal counsel, servants and employees from and against, and pay all expenses of the Issuer, its elected or appointed officials, officers, agents, legal counsel, servants and employees relating to, (a) any lawsuit, proceeding or claim arising in connection with the Project or this Agreement that results from any action taken by or on behalf of the Issuer, its elected or appointed officials, officers, agents, legal counsel, servants and employees pursuant to or in accordance with this Agreement or the Indenture that may be occasioned by any cause whatsoever, except the gross negligence or willful misconduct of the Issuer, its elected or appointed officials, officers, agents, legal counsel, servants or employees, or (b) any liability for any loss or damage to property or any injury to or death of any person that may be occasioned by any cause whatsoever pertaining to the Project, except the negligence or willful misconduct of the Issuer, its elected or appointed officials, officers, agents, legal counsel, servants or employees. In case any action shall be brought against the Issuer in respect of which indemnity may be sought against the Company, the Issuer shall promptly notify the Company in writing and the Company shall assume the defense thereof, including the employment of counsel reasonably satisfactory to the Issuer and the payment of all expenses. Failure by the Issuer to notify the Company shall not relieve the Company from any liability which it may have to the Issuer otherwise than under this Section 5.06. The Issuer shall have the right to employ separate counsel in any such action and participate in the defense thereof, but the fees and expenses of such counsel shall be paid by the Issuer unless the employment of such counsel has been authorized by the Company. The Company shall not be liable for any settlement of any such action without its consent, but if any such action is settled with the consent of the Company or if there be final judgment for the plaintiff in any such action, the Company agrees to indemnify and hold free and harmless the Issuer from and against any loss or liability by reason of such settlement or judgment. The Company will reimburse the Issuer for any action taken pursuant to Section 5.02 of the Indenture.

(b) The obligations of the Company under this Section 5.06 shall survive the termination of this Agreement.

(c) It is the intention of the parties that the Issuer shall not incur any pecuniary liability by reason of the terms of this Agreement, the Indenture or the bond purchase agreement between the Issuer and the purchaser of the Bonds, or the undertakings required

of the Issuer hereunder or thereunder or by reason of the issuance of the Bonds, the execution of the Indenture or the performance of any act required of the Issuer by this Agreement, the Indenture or the bond purchase agreement between the Issuer and the original purchasers of the Bonds or requested of the Issuer by the Company.

Section 5.07. Records of Company; Maintenance and Operation of the Project. (a) The Trustee and the Issuer shall be permitted at all reasonable times during the term of this Agreement to examine the books and records of the Company with respect to the Project; *provided, however,* that information and data contained in the books and records of the Company shall be considered proprietary and shall not be voluntarily disclosed by the Trustee or the Issuer except as required by law.

(b) The Company shall maintain the Project in good repair and keep the same insured in accordance with standard industry practice and shall pay all costs thereof. The Company shall pay or cause to be paid all taxes, special assessments and governmental, utility and other charges with respect to the Project. Compliance by the Company with the Company Mortgage, as now or hereafter in force, shall be deemed sufficient compliance with this Section.

(c) The Company may at its own expense cause the Pollution Control Facilities to be remodeled or cause such substitutions, modifications and improvements to be made to the Pollution Control Facilities from time to time as the Company, in its discretion, may deem to be desirable for its uses and purposes, which remodeling, substitutions, modifications and improvements shall be included under the terms of this Agreement as part of the Pollution Control Facilities; *provided, however,* that the Company shall not exercise any such right, power, election or option if the proposed remodeling, substitution, modification or improvement would adversely affect the Tax-Exempt status of the Bonds.

(d) The Company shall cause insurance to be taken out and continuously maintained in effect with respect to the Pollution Control Facilities in accordance with standard industry practice. All proceeds of such insurance shall be for the account of the Company.

(e) The Company shall be entitled to the proceeds of any condemnation award or portion thereof made for damage to or taking of any of the Pollution Control Facilities or other property of the Company, to the extent of the interest of the Company in the Pollution Control Facilities or such other property, as the case may be.

(f) Anything in this Agreement to the contrary notwithstanding, the Company shall have the right at any time to cause the operation of the Pollution Control Facilities to be terminated if the Company shall have determined that the continued operation of the Project or the Pollution Control Facilities is uneconomical for any reason.

Section 5.08. Right of Access to the Project. The Company agrees that the Issuer, the Trustee and their respective duly authorized agents shall have the right, subject to such limitations, restrictions and requirements as the Company may reasonably prescribe for plant security and safety reasons and in order to preserve secret processes and formulae, at

all reasonable times to enter upon and to examine and inspect the Pollution Control Facilities; *provided, however*, nothing contained herein shall entitle the Issuer or the Trustee to any information or inspection involving confidential material of the Company. Information and data contained in the books and records of the Company shall be considered proprietary and shall not be voluntarily disclosed by the Issuer or the Trustee except as required by law.

Section 5.09. Remarketing Agent. The Company hereby covenants that, so long as any of the Bonds are Outstanding and are subject to optional or mandatory purchase pursuant to the provisions of the Indenture, the Company shall cause a Remarketing Agent to be appointed and acting at all times pursuant to a Remarketing Agreement in order to provide for the remarketing of the Bonds and the establishment of interest rates to be borne by the Bonds in accordance with the provisions of the Indenture.

Section 5.10. Insurance Policy. Concurrently with the initial authentication and delivery of the Bonds, the Company shall cause the original Insurance Policy to be delivered to the Trustee. Under the Insurance Policy, the Insurer shall guarantee the payment of the principal of the Bonds upon the stated maturity thereof and upon the mandatory redemption of the Bonds pursuant to Section 4.03(b) and Section 4.03(c) of the Indenture and the payment of the interest on the Bonds as the same accrues and becomes due and payable. The Issuer and the Company agree to be bound by the provisions of the Indenture pertaining to the Insurance Policy.

ARTICLE VI

ASSIGNMENT

Section 6.01. Conditions. With the consent of each Bank (or each Obligor on an Alternate Liquidity Facility), the Company's interest in this Agreement may be assigned in whole or in part by the Company to another entity, subject, however, to the conditions that no assignment shall (a) adversely affect the Tax-Exempt status of the Bonds or (b) relieve (other than as described in Section 5.01 hereof) the Company from primary liability for its obligations to pay the First Mortgage Bonds or to make the Loan Payments or to make payments to the Trustee under Section 4.02 hereof or for any other of its obligations hereunder; and subject further to the condition that the Company shall have delivered to the Trustee an opinion of counsel to the Company that such assignment complies with the provisions of this Section 6.01.

Anything herein to the contrary notwithstanding, the Company shall not make any assignment as provided in the preceding paragraph unless it shall have furnished to the Trustee an opinion of Bond Counsel to the effect that the proposed assignment will not impair the validity of the Bonds under the Act or adversely affect the Tax-Exempt status of the Bonds.

Section 6.02. Documents Furnished to Trustee. The Company shall, within 30 days after the delivery thereof, furnish to the Issuer and the Trustee a true and complete copy of the agreements or other documents effectuating any assignment pursuant to Section 6.01 hereof. The Trustee's only duties with respect to any such agreement or other document so furnished to it shall be to make the same available for examination by any Owner at the Principal Office of the Trustee upon reasonable notice.

Section 6.03. Limitation. This Agreement shall not be assigned in whole or in part, except as provided in this Article VI or in Section 4.05 or Section 5.01 hereof.

ARTICLE VII

EVENTS OF DEFAULT AND REMEDIES

Section 7.01. Events of Default. Each of the following events shall constitute and is referred to in this Agreement as an "*Event of Default*":

(a) a failure by the Company to make when due any Loan Payment or any payment required under Section 4.01 or Section 4.02 hereof or on the First Mortgage Bonds, which failure shall have resulted in an "*Event of Default*" under Section 9.01(a), Section 9.01(b) or Section 9.01(c) of the Indenture;

(b) a failure by the Company to pay when due any amount required to be paid under this Agreement or to observe and perform any covenant, condition or agreement on its part to be observed or performed under this Agreement (other than a failure described in Section 7.01(a) above), which failure shall continue for a period of 60 days (or such longer period as the Issuer and the Trustee may agree to in writing) after written notice, specifying such failure and requesting that it be remedied, shall have been given to the Company by the Trustee or to the Company and the Trustee by the Issuer; *provided, however*, that if such failure is other than for the payment of money and is of such nature that it cannot be corrected within the applicable period, such failure shall not constitute an "*Event of Default*" so long as the Company institutes corrective action within the applicable period and such action is being diligently pursued; or

(c) the dissolution or liquidation of the Company; or the filing by the Company of a voluntary petition in bankruptcy; or failure by the Company promptly to lift or bond any execution, garnishment or attachment of such consequence as will impair its ability to make any payments under this Agreement or on the First Mortgage Bonds; or the filing of a petition or answer proposing the entry of an order for relief by a court of competent jurisdiction against the Company under Title 11 of the United States Code, as the same may from time to time be hereafter amended, or proposing the reorganization, arrangement or debt readjustment of the Company under the provisions of any bankruptcy act or under any similar act which may be hereafter enacted and the failure of said petition or answer to be discharged or denied

within 90 days after the filing thereof; or the entry of an order for relief by a court of competent jurisdiction in any proceeding for its liquidation or reorganization under the provisions of any bankruptcy act or under any similar act which may be hereafter enacted; or an assignment by the Company for the benefit of its creditors; or the entry by the Company into an agreement of composition with its creditors (the term "*dissolution or liquidation of the Company*," as used in this subsection (c), shall not be construed to include the cessation of the corporate existence of the Company resulting either from a merger or consolidation of the Company into or with another corporation or a dissolution or liquidation of the Company following a transfer of all or substantially all its assets as an entirety, under the conditions permitting such actions contained in Section 5.01 hereof).

Section 7.02. Force Majeure. The provisions of Section 7.01(b) hereof are subject to the following limitations: if by reason of acts of God; strikes, lockouts or other industrial disturbances; acts of public enemies; orders of any kind of the government of the United States or the states of California, Colorado, Idaho, Montana, Oregon, Utah, Washington or Wyoming, or any department, agency, political subdivision, court or official of any of such states or any other state which asserts regulatory jurisdiction over the Company; orders of any kind of civil or military authority; insurrections; riots; epidemics; landslides; lightning; earthquakes; volcanoes; fires; hurricanes; tornadoes; storms; floods; washouts; droughts; arrests; restraint of government and people; civil disturbances; explosions; breakage or accident to machinery; partial or entire failure of utilities; or any cause or event not reasonably within the control of the Company, the Company is unable in whole or in part to carry out any one or more of its agreements or obligations contained herein, other than its obligations under Section 4.01, Section 4.02(a), Section 4.04, Section 4.06, Section 4.07, Section 4.08, Section 4.09, Section 5.01 and Section 5.06 hereof and on the First Mortgage Bonds, the Company shall not be deemed in default by reason of not carrying out said agreement or agreements or performing said obligation or obligations during the continuance of such inability. The Company shall make reasonable effort to remedy with all reasonable dispatch the cause or causes preventing it from carrying out its agreements; *provided* that the settlement of strikes, lockouts and other industrial disturbances shall be entirely within the discretion of the Company, and the Company shall not be required to make settlement of strikes, lockouts and other industrial disturbances by acceding to the demands of the opposing party or parties when such course is in the judgment of the Company unfavorable to the Company except to the extent the Company's ability to perform its obligations under Section 4.01, Section 4.02 or Section 5.01 hereof or to pay when due any amount due hereunder or on the First Mortgage Bonds will be jeopardized by the Company's failure to make such a settlement.

Section 7.03. Remedies. (a) Upon the occurrence and continuance of any Event of Default described in Section 7.01(a) or Section 7.01(c) hereof, and further upon the condition that, in accordance with the terms of the Indenture, the Bonds shall have been declared to be immediately due and payable pursuant to any provision of the Indenture, the Loan Payments shall, without further action, become and be immediately due and payable.

(b) Any waiver of any "*Event of Default*" under the Indenture and a rescission and annulment of its consequences shall constitute a waiver of the corresponding Event or Events of Default under this Agreement and a rescission and annulment of the consequences thereof.

(c) Upon the occurrence and continuance of any Event of Default under Section 9.01(f) of the Indenture, the Trustee, as the holder of the First Mortgage Bonds, shall, subject to the provisions of the Indenture, have the rights provided in the Company Mortgage. Any waiver made in accordance with the Indenture of a "Default" under the Company Mortgage and a rescission and annulment of its consequences shall constitute a waiver of the corresponding Event or Events of Default under this Agreement and a rescission and annulment of the consequences thereof.

(d) Upon the occurrence and continuance of any Event of Default, the Issuer may take any action at law or in equity to collect any payments then due and thereafter to become due hereunder or to seek injunctive relief or specific performance of any obligation, agreement or covenant of the Company hereunder and under the First Mortgage Bonds.

(e) Any amounts collected from the Company pursuant to this Section 7.03 shall be applied in accordance with the Indenture. No action taken pursuant to this Section 7.03 shall relieve the Company from the Company's obligations pursuant to Section 4.01 or Section 4.02 hereof.

Section 7.04. No Remedy Exclusive. No remedy conferred upon or reserved to the Issuer hereby is intended to be exclusive of any other available remedy or remedies, but each and every such remedy shall be cumulative and shall be in addition to every other remedy given hereunder or now or hereafter existing at law or in equity or by statute. No delay or omission to exercise any right or power accruing upon any Event of Default shall impair any such right or power or shall be construed to be a waiver thereof, but any such right or power may be exercised from time to time and as often as may be deemed expedient. In order to entitle the Issuer to exercise any remedy reserved to it in this Article VII, it shall not be necessary to give any notice, other than such notice as may be herein expressly required.

Section 7.05. Reimbursement of Attorneys' Fees. If the Company shall default under any of the provisions hereof and the Issuer or the Trustee shall employ attorneys or incur other reasonable and proper expenses for the collection of payments due hereunder or on the First Mortgage Bonds or for the enforcement of performance or observance of any obligation or agreement on the part of the Company contained herein or therein, the Company will on demand therefor reimburse the Issuer or the Trustee, as the case may be, for the reasonable and proper fees of such attorneys and such other reasonable expenses so incurred.

Section 7.06. Waiver of Breach. In the event any obligation created hereby shall be breached by either of the parties hereto and such breach shall thereafter be waived by the other party, such waiver shall be limited to the particular breach so waived and shall not be deemed to waive any other breach hereunder. In view of the assignment of certain of the

Issuer's rights and interest hereunder to the Trustee, the Issuer shall have no power to waive any Event of Default hereunder by the Company in respect of such rights and interest without the consent of the Trustee, and the Trustee may exercise any of the rights of the Issuer hereunder.

Section 7.07. No Liability of Issuer. The Bonds are issued under and pursuant to the Act and shall be limited and not general obligations of the Issuer payable solely out of the Revenues derived from this Agreement. No Owner of any Bond has the right to compel any exercise of the taxing power of the Issuer to pay the principal of or premium, if any, or interest on the Bonds when due or the purchase price of any Bond. The Bonds shall not constitute or give rise to a pecuniary liability of the Issuer or constitute an indebtedness of or a charge against the general credit or taxing power of the Issuer or a loan of credit thereof within the meaning of any constitutional or statutory provisions. Neither the Issuer nor any member or officer of the Issuer nor any person executing the Bonds shall be liable personally on the Bonds or be subject to any personal liability or accountability by reason of the issuance of the Bonds.

ARTICLE VIII

PURCHASE OR REDEMPTION OF BONDS

Section 8.01. Redemption of Bonds. The Issuer shall take or cause to be taken the actions required by the Indenture (other than the payment of money) to discharge the lien thereof through the redemption, or provision for payment or redemption, of all Bonds then Outstanding, or to effect the redemption, or provision for payment or redemption, of less than all the Bonds then Outstanding, upon receipt by the Issuer and the Trustee from an Authorized Company Representative of a written notice designating the principal amount of the Bonds to be redeemed and specifying the date of redemption (which shall not be less than 30 days from the date such notice is given) and the applicable redemption provision of the Indenture. Unless otherwise stated therein, such notice shall be revocable by the Company at any time prior to the time at which the Bonds to be redeemed, or for the payment or redemption of which provision is to be made, are first deemed to be paid in accordance with Article VIII of the Indenture. The Company shall furnish any moneys required by the Indenture to be deposited with the Trustee or otherwise paid by the Issuer in connection with any of the foregoing purposes. In connection with any redemption of the Bonds, the Company shall provide to the Trustee the names and addresses of the Securities Depositories and Information Services as contemplated by Section 4.05 of the Indenture.

Section 8.02. Purchase of Bonds. The Company may at any time, and from time to time, furnish moneys to the Trustee accompanied by a notice directing such moneys to be applied to the purchase of Bonds in accordance with the provisions of the Indenture delivered pursuant to the Indenture, which Bonds shall, at the direction of the Company, be delivered in accordance with Section 3.06(a)(iii) of the Indenture.

Section 8.03. Obligation to Prepay. (a) The Company shall be obligated to prepay in whole or in part the amounts payable hereunder upon a Determination of Taxability (as defined below) or other event giving rise to a mandatory redemption of the Bonds pursuant to Section 4.03 of the Indenture, by paying an amount equal to, when added to other funds on deposit in the Bond Fund, (i) the aggregate principal amount of the Bonds to be redeemed pursuant to the Indenture plus accrued interest to the redemption date, plus (ii) an amount of money equal to the Trustee's fees and expenses under the Indenture accrued and to accrue until such redemption of such Bonds, plus (iii) an amount of money equal to all sums due to the Issuer under this Agreement.

(b) The Company shall cause a mandatory redemption to occur within 180 days after a Determination of Taxability (as defined below) shall have occurred. A "Determination of Taxability" shall be deemed to have occurred if as a result of an Event of Taxability, a final decree or judgment of any federal court or a final action of the Internal Revenue Service determines that interest paid or payable on any Bond is or was includible in the gross income of an Owner of the Bonds for federal income tax purposes under the Code (other than an Owner who is a "substantial user" or "related person" within the meaning of Section 103(b)(13) of the 1954 Code). However, no such decree or action will be considered final for this purpose unless the Company has been given written notice and, if it is so desired and is legally allowed, has been afforded the opportunity to contest the same, either directly or in the name of any Owner of a Bond, and until conclusion of any appellate review, if sought. If the Trustee receives written notice from any Owner of a Bond stating (a) that the Owner has been notified in writing by the Internal Revenue Service that it proposes to include the interest on any Bond in the gross income of such Owner for the reasons described therein or any other proceeding has been instituted against such Owner which may lead to a final decree or action as described herein, and (b) that such Owner will afford the Company the opportunity to contest the same, either directly or in the name of the Owner, until a conclusion of any appellate review, if sought, then the Trustee shall promptly give notice thereof to the Company, the Insurer, the Agent Bank (or the Agent Obligor on an Alternate Liquidity Facility, as the case may be), the Issuer and the Owner of each Bond then Outstanding. If a final decree or action as described above thereafter occurs and the Trustee has received written notice thereof as provided in Section 8.01 hereof at least 45 days prior to the redemption date, the Trustee shall make the required demand for prepayment of the amounts payable hereunder and give notice of the redemption of the Bonds at the earliest practical date, but not later than the date specified in this Article, and in the manner provided by Section 4.05 of the Indenture.

At the time of any such prepayment of the amounts payable hereunder pursuant to this Section, the prepayment amount shall be applied, together with other available moneys in the Bond Fund, to the redemption of the Bonds on the date specified in the notice as provided in the Indenture, whether or not such date is an Interest Payment Date, to the Trustee's fees and expenses under the Indenture accrued to such redemption of the Bonds, and to all sums due to the Issuer under this Agreement.

Whenever the Company shall have given any notice of prepayment of the amounts payable hereunder pursuant to this Article VIII, which includes a notice for redemption of

the Bonds pursuant to the Indenture, all amounts payable under the first paragraph of this Section 8.03 shall become due and payable on the date fixed for redemption of such Bonds.

Section 8.04. Compliance With Indenture. Anything in this Agreement to the contrary notwithstanding, the Issuer and the Company shall take all actions required by this Agreement and the Indenture in order to comply with the provisions of Article III of the Indenture.

ARTICLE IX

MISCELLANEOUS

Section 9.01. Term of Agreement. This Agreement shall remain in full force and effect from the date of delivery hereof until the right, title and interest of the Trustee in and to the Trust Estate shall have ceased, terminated and become void in accordance with Article VIII of the Indenture and until all payments required under this Agreement shall have been made. The date first above written shall be for identification purposes only and shall not be construed to imply that this Agreement was executed on such date.

Section 9.02. Notices. Except as otherwise provided in this Agreement, all notices, certificates, requests, requisitions and other communications hereunder shall be in writing and shall be sufficiently given and shall be deemed given when mailed by certified or registered mail, postage prepaid, addressed as follows: if to the Issuer, County Courthouse, 120 East Main, Price, Utah 84501, Attention: Chair, Board of County Commissioners; if to the Company, 700 N.E. Multnomah Street, Suite 1600, Portland, Oregon 97232-4116, Attention: Vice President (Corporate Finance); if to the Trustee, at such address as shall be designated by it in the Indenture; and if to the Remarketing Agent or the Insurer at such address as shall be designated by such party pursuant to the Indenture; and if to the Agent Bank or an Agent Obligor on an Alternate Liquidity Facility, at such address as shall be designated by it in writing to the Issuer, the Company, the Trustee, the Remarketing Agent and the Insurer. A copy of each notice, certificate, request or other communication given hereunder to the Issuer, the Company, the Trustee, the Remarketing Agent, the Insurer or the Agent Bank shall also be given to the others. Any of the foregoing parties may, by notice given hereunder, designate any further or different addresses to which subsequent notices, certificates, requests or other communications shall be sent.

Section 9.03. Parties in Interest. (a) This Agreement shall inure to the benefit of and shall be binding upon the Issuer, the Company and their respective successors and assigns, and no other person, firm or corporation shall have any right, remedy or claim under or by reason of this Agreement except for rights of payment and indemnification hereunder of the Trustee and the Registrar. Section 9.05 hereof to the contrary notwithstanding, for purposes of perfecting a security interest in this Agreement by the Trustee, only the counterpart delivered, pledged and assigned to the Trustee shall be deemed the original. No security interest in this Agreement may be created by the transfer of any

counterpart thereof other than the original counterpart delivered, pledged and assigned to the Trustee.

(b) Upon the Expiration of the term of the Standby Purchase Agreement, references to any Bank or the Agent Bank herein shall be of no effect, except with respect to amounts payable to any Bank which have not been paid. If such amounts have not been paid, the Agent Bank shall be entitled to all notices hereunder. If an "*Event of Default*" shall have occurred under the Indenture due to failure by any Bank to honor its obligations pursuant to the Standby Purchase Agreement, so long as such failure continues any reference herein to "*Bank*" or the "*Agent Bank*" shall be void and of no effect to the extent that the reference may be construed to include any such Bank. Upon the Expiration of the term of an Alternate Liquidity Facility, references to any Obligor on such Alternate Liquidity Facility or the Agent Obligor on such Alternate Liquidity Facility shall be of no effect, except with respect to amounts payable to any Obligor on such Alternate Liquidity Facility which have not been paid. If such amounts have not been paid, the Agent Obligor on such Alternate Liquidity Facility shall be entitled to all notices hereunder. If an "*Event of Default*" shall have occurred under the Indenture due to failure by any Obligor on an Alternate Liquidity Facility to honor its obligations under such Alternate Liquidity Facility, so long as such failure continues any reference herein to "*Obligor on an Alternate Liquidity Facility*" or the "*Agent Obligor on an Alternate Liquidity Facility*" shall be void and of no effect to the extent that the reference may be construed to include any such Obligor.

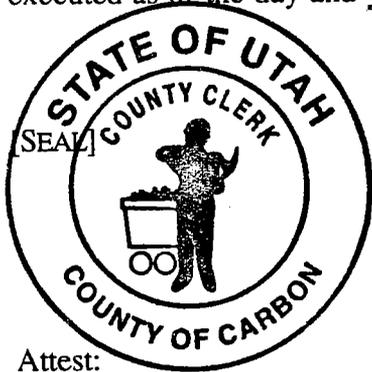
Section 9.04. Amendments. This Agreement may be amended only by written agreement of the parties hereto, subject to the limitations set forth herein and in the Indenture.

Section 9.05. Counterparts. This Agreement may be executed in any number of counterparts, each of which, when so executed and delivered, shall be an original (except as expressly provided in Section 9.03 hereof), and such counterparts shall together constitute but one and the same Agreement.

Section 9.06. Severability. If any clause, provision or section of this Agreement shall, for any reason, be held invalid or unenforceable by any court of competent jurisdiction, such holding shall not invalidate or render unenforceable any other provision hereof.

Section 9.07. Governing Law. This Agreement shall be governed exclusively by and construed in accordance with the laws of the State except that the authority of the Company to execute and deliver this Agreement shall be governed by the laws of the State of Oregon.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed as of the day and year first above written.



CARBON COUNTY, UTAH

By *Neil Bevel*
Chair, Board of County Commissioners

Attest:

By *Walter D. Crew*
County Clerk

PACIFICORP

By _____
Vice President

Attest:

By _____
Assistant Secretary

EXHIBIT H
PACIFICORP
UNCONSOLIDATED BALANCE SHEET
SEPTEMBER 30, 2002

ASSETS AND OTHER DEBITS	TOTAL CORPORATION
UTILITY PLANT	
ELECTRIC PLANT IN SERVICE (101)	12,606,562,693.77
PROPERTY UNDER CAPITAL LEASES (101.1)	24,697,609.51
ELECTRIC PLANT PURCHASED OR SOLD (102)	0.00
EXPERIMENTAL ELECTRIC PLANT - UNCLASSIFIED (103)	0.00
ELECTRIC PLANT HELD FOR FUTURE USE (105)	2,845,111.09
COMPLETED CONSTRUCTION NOT CLASSIFIED (106)	0.00
CONSTRUCTION WORK IN PROGRESS - ELECTRIC (107)	307,142,466.21
ELECTRIC PLANT ACQUISITION ADJUSTMENTS (114)	157,193,779.75
OTHER UTILITY PLANT (118)	0.00
NUCLEAR FUEL (120.1-120.4)	0.00
TOTAL UTILITY PLANT	13,098,441,660.33
ACCUM PROV FOR DEPR OF ELECT PLANT IN SERVICE (108)	CR 4,914,011,987.07
ACCUM PROV FOR AMORT OF ELECT PLANT IN SERVICE (111)	CR 254,027,836.64
ACCUM PROV FOR ASSET ACQUISITION ADJUSTMENT (115)	CR 56,601,564.23
ACCUM PROV FOR DEPR OF OTHER UTILITY PLANT (119)	CR 0.00
ACCUM PROV FOR AMORT OF NUCLEAR FUEL ASSEMB (120.5)	CR 0.00
UTILITY PLANT - NET	7,873,800,272.39
NONUTILITY PROPERTY AND INVESTMENTS	
NONUTILITY PROPERTY (121)	7,969,620.13
ACCUM PROV FOR DEPR/AMORT OF NONUTILITY PROP (122)	CR 1,158,592.61
INVESTMENT IN ACCOCIATED COMPANIES (123)	9,770,987.71
INVESTMENT IN SUBSIDIARY COMPANIES (123.1)	71,141,038.77
OTHER INVESTMENTS (124)	78,941,509.82
OTHER SPECIAL FUNDS (128)	2,112,864.09
TOTAL NONUTILITY PROPERTY & INVESTMENTS	168,777,427.91
CURRENT AND ACCRUED ASSETS	
CASH (131)	26,862,225.41
SPECIAL DEPOSITS (132-134)	0.00
WORKING FUNDS (135)	(133,995.41)
TEMPORARY CASH INVESTMENTS (136)	7,512,222.65
NOTES RECEIVABLE (141)	347,687.40
CUSTOMER ACCOUNTS RECEIVABLE (142)	263,491,007.90
OTHER ACCOUNTS RECEIVABLE (143)	11,314,330.53
ACCUMULATED PROV FOR UNCOLLECTIBLE ACCOUNTS (144)	CR 32,394,061.74
NOTES RECEIVABLE FROM ASSOCIATED COMPANIES (145)	76,028.80
ACCOUNTS RECEIVABLE FROM ASSOCIATED COMPANIES (146)	1,863,425.23
FUEL STOCK (151-152)	57,059,656.74
MATERIALS AND SUPPLIES (154-163)	88,816,905.04
PREPAYMENTS (165)	20,754,633.73
INTEREST AND DIVIDENDS RECEIVABLE (171)	64,896.33
RENTS RECEIVABLE (172)	129,314.03
ACCRUED UTILITY REVENUES (173)	124,853,000.00
MISCELLANEOUS CURRENT AND ACCRUED ASSETS (174)	66,877,592.45
TOTAL CURRENT AND ACCRUED ASSETS	637,494,869.09
DEFERRED DEBITS	
UNAMORTIZED DEBT EXPENSE (181)	36,813,467.96
EXTRAORDINARY PROPERTY LOSSES (182.1)	0.00
UNRECOVERED PLANT AND REGULATORY STUDY COSTS (182.2)	15,847,280.40
OTHER REGULATORY ASSETS (182.3)	1,784,975,945.06
PRELIMINARY SURVEY & INVESTIGATION CHARGES (183)	5,190,493.39
CLEARING ACCOUNTS (184)	(83,009.48)
TEMPORARY FACILITIES (185)	173,868.05
MISCELLANEOUS DEFERRED DEBITS (186)	247,826,491.01
RESEARCH DEVELOPMENT DEMONSTRATION EXPENDITURES (188)	0.00
UNAMORTIZED LOSS ON REACQUIRED DEBT (189)	37,001,808.42
ACCUMULATED DEFERRED INCOME TAXES (190)	41,149,126.43
TOTAL DEFERRED DEBITS	2,168,895,471.24
TOTAL ASSETS AND OTHER DEBITS	10,848,968,040.63

EXHIBIT H
PACIFICORP
UNCONSOLIDATED BALANCE SHEET
SEPTEMBER 30, 2002

LIABILITIES AND OTHER CREDITS	TOTAL CORPORATION
CAPITALIZATION	
COMMON EQUITY	
COMMON STOCK ISSUED (201)	2,783,226,675.24
COMMON STOCK LIABILITY FOR CONVERSION (203)	0.00
PREMIUM ON CAPITAL STOCK (207)	0.00
OTHER PAID-IN CAPITAL (208-211)	(334,272.43)
INSTALLMENTS RECEIVED ON CAPITAL STOCK (212)	0.00
CAPITAL STOCK EXPENSE (214) DR	42,037,473.18
RETAINED EARNINGS (215.1, 216)	236,449,877.98
REACQUIRED CAPITAL STOCK (217)	0.00
TOTAL COMMON EQUITY	2,977,304,807.61
PREFERRED STOCK ISSUED (204)	108,963,300.00
LONG-TERM DEBT	
BONDS (221)	3,542,498,106.77
POLLUTION CONTROL FUNDS ON DEPOSIT WITH TRUSTEE (221.4, 5)	(2,032,182.96)
ADVANCES FROM ASSOCIATED COMPANIES (223)	362,888,000.00
OTHER LONG-TERM DEBT (224)	0.00
UNAMORTIZED PREMIUM ON LONG-TERM DEBT (225)	55,269.66
UNAMORTIZED DISCOUNT ON LONG-TERM DEBT (226) DR	4,759,802.13
TOTAL LONG-TERM DEBT	3,898,649,391.34
TOTAL CAPITALIZATION	6,984,917,498.95
OTHER NONCURRENT LIABILITIES	
OBLIGATIONS UNDER CAPITAL LEASES (227)	27,655,345.45
ACCUMULATED PROVISION FOR PROPERTY INSURANCE (228.1)	4,772,664.21
ACCUMULATED PROVISION FOR INJURIES & DAMAGES (228.2)	10,247,224.19
ACCUMULATED PROVISION FOR PENSIONS & BENEFITS (228.3)	221,433,944.23
ACCUMULATED MISCELLANEOUS OPERATING PROVISIONS (228.4)	8,468,516.14
ACCUMULATED PROVISION FOR RATE REFUNDS (229)	0.00
TOTAL OTHER NONCURRENT LIABILITIES	272,577,694.22
CURRENT AND ACCRUED LIABILITIES	
NOTES PAYABLE (231)	240,050,000.00
ACCOUNTS PAYABLE (232)	284,133,621.11
NOTES PAYABLE TO ASSOCIATED COMPANIES (233)	24,165,598.43
ACCOUNTS PAYABLE TO ASSOCIATED COMPANIES (234)	36,230,480.68
CUSTOMER DEPOSITS (235)	9,875,740.03
TAXES ACCRUED (236)	107,070,316.33
INTEREST ACCRUED (237)	68,181,028.66
DIVIDENDS DECLARED (238)	2,171,538.58
MATURED LONG-TERM DEBT (239)	
MATURED INTEREST (240)	
TAX COLLECTIONS PAYABLE (241)	12,803,619.29
MISCELLANEOUS CURRENT AND ACCRUED LIABILITIES (242)	144,392,714.69
OBLIGATIONS UNDER CAPITAL LEASES (243)	(16,304.60)
TOTAL CURRENT AND ACCRUED LIABILITIES	929,058,353.20
DEFERRED CREDITS	
CUSTOMER ADVANCES FOR CONSTRUCTION (252)	7,275,741.00
OTHER DEFERRED CREDITS (253)	754,093,870.51
OTHER REGULATORY LIABILITIES (254)	315,573,782.20
ACCUMULATED DEFERRED INVESTMENT TAX CREDITS (255)	95,348,513.00
UNAMORTIZED GAIN ON REACQUIRED DEBT (257)	420,377.59
ACCUM DEFERRED INCOME TAXES - ACCEL AMORTIZTN (281)	1,720,893.00
ACCUM DEFERRED INCOME TAXES-LIBRLZ DEPRECIATION (282)	1,507,695,637.64
ACCUMULATED DEFERRED INCOME TAXES-OTHER (283)	(19,714,320.68)
TOTAL DEFERRED CREDITS	2,662,414,494.26
TOTAL LIABILITIES AND OTHER CREDITS	10,848,968,040.63

EXHIBIT I
PACIFICORP
UNCONSOLIDATED STATEMENT OF INCOME
12 MONTHS ENDED SEPTEMBER 30, 2002

	TOTAL CORPORATION
UTILITY OPERATING INCOME	
OPERATING REVENUES	3,445,709,608.36
OPERATION AND MAINTENANCE EXPENSE	
OPERATION	2,056,580,831.68
MAINTENANCE	242,695,123.45
TOTAL OPERATION AND MAINTENANCE EXPENSE	2,299,275,955.13
DEPRECIATION	362,133,426.05
AMORTIZATION	55,723,008.69
TAXES OTHER THAN INCOME TAXES	126,518,935.65
INCOME TAXES -- FEDERAL	123,671,942.00
-- STATE	17,087,891.00
PROVISION FOR DEFERRED INCOME TAXES	(16,428,707.94)
INVESTMENT TAX CREDIT ADJUSTMENTS -- NET	(5,854,800.00)
GAINS FROM DISPOSITION OF UTILITY PLANT	CR 0.00
LOSSES FROM DISPOSITION OF UTILITY PLANT	0.00
GAINS FROM DISPOSITION OF ALLOWANCES	CR (1,553,621.41)
OTHER UTILITY OPERATING INCOME - STEAM HTG	0.00
UTILITY OPERATING INCOME	482,028,336.37
OTHER INCOME AND DEDUCTIONS	
OTHER INCOME	
INCOME FROM MERCHANDISING	3,567,795.50
INCOME FROM NONUTILITY OPERATIONS	2,937,590.00
NONOPERATING RENTAL INCOME	54,958.63
EQUITY IN EARNINGS OF ELECTRIC SUBSIDIARIES	1,819,195.29
EQUITY IN EARNINGS OF NONELECTRIC SUBSIDIARIES	14,737,207.28
INTEREST AND DIVIDEND INCOME	7,395,141.46
ALLOW FOR FUNDS USED DURING CONSTRUCTION	5,847,452.71
MISCELLANEOUS NONOPERATING INCOME	3,122,711.60
GAIN ON DISPOSITION OF PROPERTY	2,792,128.54
TOTAL OTHER INCOME	42,274,181.01
OTHER INCOME DEDUCTIONS	
LOSS ON DISPOSITION OF PROPERTY	319.54
MISCELLANEOUS AMORTIZATION	2,639,483.82
MISCELLANEOUS INCOME DEDUCTIONS	9,299,441.65
TOTAL OTHER INCOME DEDUCTIONS	11,939,245.01
TAXES APPLIC TO OTHER INCOME & DEDUCTIONS	
TAXES OTHER THAN INCOME TAXES	194,424.90
INCOME TAXES	(3,500,025.00)
INVESTMENT TAX CREDITS	(2,065,260.00)
TOTAL TAXES APPLIC TO OTHER INC & DED	(5,370,860.10)
NET OTHER INCOME AND DEDUCTIONS	35,705,796.10
INCOME BEFORE INTEREST CHARGES	517,734,132.47
INTEREST CHARGES	
INTEREST ON BONDS	218,071,745.42
INTEREST ON OTHER LONG-TERM DEBT	0.00
AMORTIZATION OF DEBT DISCOUNT AND EXPENSE	4,595,108.06
AMORTIZATION OF LOSS ON REACQUIRED DEBT	5,462,357.43
AMORTIZATION OF PREMIUM ON DEBT	CR 2,718.18
AMORTIZATION OF GAIN ON REACQUIRED DEBT	CR 190,000.70
INTEREST ON DEBT TO ASSOCIATED COMPANIES	31,244,961.57
OTHER INTEREST EXPENSE	37,023,239.94
ALLOW FOR BRD FUNDS USED DURING CONSTR	CR 6,631,886.82
NET INTEREST CHARGES	289,572,806.72
INCOME BEFORE EXTRAORD. ITEMS	228,161,325.75
EXTRAORDINARY ITEMS -- NET OF INCOME TAX	
CUMULATIVE EFFECT OF CHANGE IN ACCT. PRINCIPLE	1,856,994.00
NET INCOME	226,304,331.75
PREFERRED DIVIDEND REQUIREMENTS	7,559,583.83
EARNINGS AVAILABLE FOR COMMON STOCK	218,744,747.92

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2002

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 1-5152

PacifiCorp

(Exact name of registrant as specified in its charter)

STATE OF OREGON
(State or other jurisdiction
of incorporation or organization)

93-0246090
(I.R.S. Employer Identification No.)

825 N.E. Multnomah, Portland, Oregon
(Address of principal executive offices)

97232
(Zip Code)

503-813-5000
(Registrant's telephone number)

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 twelve 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 at least the past 90 days.

YES NO

PACIFICORP

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PART I. FINANCIAL INFORMATION**ITEM 1. FINANCIAL STATEMENTS****PACIFICORP**

CONDENSED CONSOLIDATED STATEMENTS OF INCOME (LOSS) AND RETAINED EARNINGS (Unaudited)

(Millions of dollars)	Three Months Ended September 30,		Six Months Ended September 30,	
	2002	2001	2002	2001
Revenues	\$ 944.1	\$ 1,244.2	\$ 1,833.9	\$ 2,525.8
Operating expenses				
Purchased power	358.7	768.4	675.2	1,503.4
Fuel	133.2	128.6	230.5	245.7
Other operations and maintenance	128.8	133.9	270.5	284.2
Depreciation and amortization	108.5	100.3	214.9	199.9
Administrative and general	62.7	60.3	142.7	119.5
Taxes, other than income taxes	25.3	19.1	48.1	43.3
Unrealized (gain) loss on SFAS No. 133 - derivative instruments	(5.3)	28.1	(3.1)	(150.0)
Total	811.9	1,238.7	1,578.8	2,246.0
Gain on sale of Australian Electric Operations	-	-	-	(27.4)
Income from operations	132.2	5.5	255.1	307.2
Interest expense and other (income) expense				
Interest expense	80.6	52.4	144.6	107.4
Interest income	(2.9)	(6.5)	(5.0)	(14.7)
Interest capitalized	(4.4)	(2.1)	(9.9)	(4.4)
Minority interest and other	5.7	(5.1)	15.1	(13.3)
Total	79.0	38.7	144.8	75.0
Income (loss) from continuing operations before income taxes and cumulative effect of accounting change	53.2	(33.2)	110.3	232.2
Income tax expense (benefit)	21.7	(3.0)	41.3	98.1
Income (loss) from continuing operations before cumulative effect of accounting change	31.5	(30.2)	69.0	134.1
Discontinued operations (less applicable income tax expense: \$36.4/2001)	-	-	-	146.7
Income (loss) before cumulative effect of accounting change	31.5	(30.2)	69.0	280.8
Cumulative effect of accounting change (less applicable income tax benefit: \$1.1/2002 and \$69.0/2001) (Note 3)	-	-	(1.9)	(112.8)
Net income (loss)	31.5	(30.2)	67.1	168.0
Preferred dividend requirement	(1.8)	(4.4)	(3.7)	(8.8)
Earnings (loss) on common stock	\$ 29.7	\$ (34.6)	\$ 63.4	\$ 159.2
RETAINED EARNINGS BEGINNING OF PERIOD	\$ 206.8	\$ 242.1	\$ 173.1	\$ 128.1
Net income (loss)	31.5	(30.2)	67.1	168.0
Cash dividends declared				
Preferred stock	(1.8)	(3.5)	(3.7)	(7.4)
Common stock	-	(80.3)	-	(160.6)
RETAINED EARNINGS END OF PERIOD	\$ 236.5	\$ 128.1	\$ 236.5	\$ 128.1

The accompanying notes are an integral part to these Condensed Consolidated Financial Statements

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PACIFICORP
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

(Millions of dollars)	Six Months Ended September 30,	
	2002	2001
Cash flows from operating activities		
Net income	\$ 67.1	\$ 168.0
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Gain on disposal of discontinued operations	-	(146.7)
Cumulative effect of accounting change	1.9	112.8
Unrealized gain on SFAS No. 133 - derivative instruments	(3.1)	(150.0)
Depreciation and amortization	214.9	199.9
Deferred income taxes and investment tax credits - net	(12.8)	73.3
Gain on sale of assets	(1.2)	(36.2)
Deferred net power costs	(23.2)	(184.5)
Changes in other regulatory assets/liabilities	71.8	26.1
Accounts receivable and prepayments	5.9	12.0
Accounts payable and accrued liabilities	(113.0)	(159.5)
Other	(8.2)	(7.0)
Net cash provided by (used in) operating activities	200.1	(91.8)
Cash flows from investing activities		
Construction	(253.1)	(208.6)
Changes in debt due affiliates	-	(123.5)
Advances to ScottishPower	-	400.0
Proceeds from ScottishPower note receivable	-	(27.4)
Proceeds from finance note repayment	-	189.9
Proceeds from sales of assets	9.8	28.1
Proceeds from sales of finance assets and principal payments	-	38.9
Proceeds from available for sale securities	74.6	56.3
Purchases of available for sale securities	(75.1)	(59.7)
Other	2.7	2.3
Net cash (used in) provided by investing activities	(241.1)	296.3
Cash flows from financing activities		
Changes in short-term debt	76.5	(44.8)
Dividends paid	(3.8)	(7.8)
Repayments of long-term debt	(130.4)	(47.1)
Redemptions of preferred stock	(7.5)	(100.0)
Other	-	(1.3)
Net cash used in financing activities	(65.2)	(201.0)
(Decrease) increase in cash and cash equivalents	(106.2)	3.5
Cash and cash equivalents at beginning of period	157.9	139.4
Cash and cash equivalents at end of period	\$ 51.7	\$ 142.9

The accompanying notes are an integral part to these Condensed Consolidated Financial Statements

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PACIFICORP
CONDENSED CONSOLIDATED BALANCE SHEETS

(Millions of dollars)	September 30, 2002	March 31, 2002
ASSETS	(Unaudited)	
Current assets		
Cash and cash equivalents	\$ 51.7	\$ 157.9
Accounts receivable less allowance for doubtful accounts: \$32.4/September 2002 and \$34.8/March 2002	246.8	249.1
Unbilled revenue	124.9	127.0
Inventories at average cost		
Materials and supplies	96.1	93.5
Fuel	60.1	59.9
SFAS No. 133 current assets	67.6	51.3
Other	20.8	21.5
Total current assets	<u>668.0</u>	<u>760.2</u>
Property, plant and equipment	13,297.4	13,098.9
Accumulated depreciation and amortization	<u>(5,322.3)</u>	<u>(5,129.4)</u>
Total property, plant and equipment - net	<u>7,975.1</u>	<u>7,969.5</u>
Other assets		
Regulatory assets	1,066.1	1,158.3
SFAS No. 133 regulatory asset	595.2	468.4
SFAS No. 133 non-current assets	104.6	155.0
Deferred charges and other	348.1	366.2
Total other assets	<u>2,114.0</u>	<u>2,147.9</u>
Total assets	<u>\$ 10,757.1</u>	<u>\$ 10,877.6</u>

The accompanying notes are an integral part to these Condensed Consolidated Financial Statements

PACIFICORP
CONDENSED CONSOLIDATED BALANCE SHEETS, continued

(Millions of dollars)	September 30, 2002	March 31, 2002
LIABILITIES, REDEEMABLE PREFERRED STOCK AND SHAREHOLDERS' EQUITY	(Unaudited)	
Current liabilities		
Long-term debt currently maturing	\$ 96.7	\$ 144.5
Notes payable and commercial paper	253.9	177.5
Accounts payable	318.0	384.5
Taxes payable	115.5	115.9
Interest payable	68.2	100.8
SFAS No. 133 current liability	103.7	151.7
Other	133.9	142.0
Total current liabilities	<u>1,089.9</u>	<u>1,216.9</u>
Deferred credits		
Income taxes	1,441.9	1,434.8
Investment tax credits	99.3	99.3
Regulatory liabilities	145.4	219.7
SFAS No. 133 non-current liability	662.4	560.5
Other	419.7	443.7
Total deferred credits	<u>2,768.7</u>	<u>2,758.0</u>
Long-term debt, net of current maturities	3,471.5	3,553.8
Commitments and contingencies (See Note 7)		
Guaranteed preferred beneficial interests in Company's junior subordinated debentures	341.7	341.5
Preferred stock subject to mandatory redemption	66.7	74.2
Redeemable preferred stock	41.3	41.3
Common equity		
Common shareholder's capital	2,742.1	2,742.1
Retained earnings	236.5	173.1
Accumulated other comprehensive income (loss):		
Unrealized (loss) gain on available for sale securities, net of tax of \$1.1/September 2002 and \$0.6/March 2002	(1.3)	0.7
Unrealized loss on derivative financial instruments, net of tax of \$14.7/March 2002	-	(24.0)
Total common equity	<u>2,977.3</u>	<u>2,891.9</u>
Total liabilities, redeemable preferred stock and shareholders' equity	<u>\$ 10,757.1</u>	<u>\$ 10,877.6</u>

The accompanying notes are an integral part to these Condensed Consolidated Financial Statements

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 1 - Financial Statements

The condensed consolidated financial statements of PacifiCorp (the "Company") include its integrated domestic electric utility

operations ("Domestic Electric Operations") and its wholly owned and majority-owned subsidiaries. The subsidiaries of PacifiCorp support its electric utility operations by providing environmental remediation, financing and coal mining facilities and services. Intercompany transactions and balances have been eliminated upon consolidation.

The accompanying unaudited condensed consolidated financial statements as of September 30, 2002 and for the periods ended September 30, 2002 and 2001, in the opinion of management, reflect all adjustments, which include only normal recurring adjustments, necessary for a fair presentation of financial position, results of operations and cash flows for such periods. The March 31, 2002 condensed consolidated balance sheet data was derived from audited financial statements. Such statements are presented in accordance with the Securities and Exchange Commission's ("SEC") interim reporting requirements, which do not include all the disclosures required by accounting principles generally accepted in the United States of America. Certain information and footnote disclosures made in the last Annual Report on Form 10-K have been condensed or omitted from the interim statements. A portion of the business of the Company is of a seasonal nature and, therefore, results of operations for the periods ended September 30, 2002 and 2001 are not necessarily indicative of the expected results for any other interim period or the year ending March 31, 2003. These condensed consolidated financial statements should be read in conjunction with the financial statements and related notes in the Company's 2002 Annual Report on Form 10-K.

After obtaining the necessary regulatory approvals, on December 31, 2001, NA General Partnership ("NAGP") contributed all of the common stock of PacifiCorp to PacifiCorp Holdings, Inc. ("PHI"), a direct, wholly owned subsidiary of NAGP. NAGP is a wholly owned subsidiary of Scottish Power plc ("ScottishPower"). On February 4, 2002, PacifiCorp transferred all of the capital stock of PacifiCorp Group Holdings Company ("Holdings") to PHI. Holdings includes the wholly owned subsidiary, PacifiCorp Financial Services, Inc. ("PFS"), a financial services business. Accordingly, the results of operations, assets and liabilities of Holdings are not included with those of PacifiCorp commencing February 4, 2002.

These interim statements have been prepared using accounting policies consistent with those applied at March 31, 2002. Certain amounts have been reclassified to conform with the current method of presentation. These reclassifications had no effect on previously reported consolidated net income (loss).

NOTE 2 - Accounting for the Effects of Regulation

Regulated utilities have historically applied the provisions of Statement of Financial Accounting Standards ("SFAS") No. 71, *Accounting for the Effects of Regulation*, ("SFAS No. 71"), which is based on the premise that regulators will set rates that allow for the recovery of a utility's costs, including cost of capital. Accounting under SFAS No. 71 is appropriate as long as: rates are established by or subject to approval by independent, third-party regulators; rates are designed to recover the specific enterprise's cost-of-service; and in view of demand for service, it is reasonable to assume that rates are set at levels that will recover costs and can be collected from customers.

SFAS No. 71 provides that regulatory assets may be capitalized if it is probable that future revenue in an amount at least equal to the capitalized costs will result from the inclusion of that cost in allowable costs for ratemaking purposes. In addition, the rate action should permit recovery of the specific previously incurred and capitalized costs rather than to provide for expected levels of similar future costs. The Company records regulatory assets and liabilities based on management's assessment that it is probable that a cost will be recovered (asset) or that an obligation has been incurred (liability). The final outcome, or additional regulatory actions, could change

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management's assessment in future periods. A regulator can provide current rates intended to recover costs that are expected to be incurred in the future, with the understanding that if those costs are not incurred, future rates will be reduced by corresponding amounts. If current rates are intended to recover such costs, the Company shall recognize amounts charged, pursuant to such rates, as liabilities and take those amounts to income only when the associated costs are incurred. In applying SFAS No. 71, the Company must give consideration to changes in the level of demand or competition during the cost recovery period. In accordance with SFAS No. 71, Domestic Electric Operations capitalizes certain costs as regulatory assets in accordance with regulatory authority whereby those costs will be expensed and recovered in future periods.

The Emerging Issues Task Force ("EITF") of the Financial Accounting Standards Board ("FASB") concluded in 1997 that SFAS No. 71 should be discontinued when detailed legislation or regulatory orders regarding competition are issued. Additionally, the EITF concluded that regulatory assets and liabilities applicable to businesses being deregulated should be written-off unless their recovery is provided for through future regulated cash flows. The Company continuously evaluates the appropriateness of applying SFAS No. 71 to each of its jurisdictions. At September 30, 2002, management concluded that SFAS No. 71 was appropriate for the Domestic Electric Operations. However, if deregulation activities continue to progress, the Company may in the future be required to discontinue its application of SFAS No. 71 to all or a portion of its business.

The Company is subject to the jurisdiction of public utility regulatory authorities in each of the states in which it conducts retail electric operations as to prices, services, accounting, issuance of securities and other matters. The jurisdictions in which the Company operates are in various stages of evaluating deregulation. At present, the Company is subject to cost based rate making

for its Domestic Electric Operations business. The Company is a "licensee" and a "public utility" as those terms are used in the Federal Power Act (the "FPA") and is, therefore, subject to regulation by the Federal Energy Regulatory Commission (the "FERC") as to accounting policies and practices, certain prices and other matters.

In an effort to mitigate the temporary discrepancy between prices paid to purchase power and revenues received through regulated rates, the Company requested and received regulatory approval from the utility commissions in the states of Utah, Oregon, Wyoming and Idaho to capitalize for each state some of the net power costs that vary from costs included in determining retail rates. At September 30, 2002, the Company had a balance of \$227.1 million of such capitalized costs supported by regulatory orders or stipulated agreements reached in Utah, Oregon and Idaho and an amount for deferred net power costs anticipated to be recoverable in Wyoming. The determination of the amount to be recovered in Wyoming is subject to receipt of a final commission order from the Wyoming Public Service Commission ("WPSC") in a rate case expected to be concluded by March 2003. Full recovery cannot be assured and differences between the amount allowed by the commission and the amounts capitalized at September 30, 2002 will be recognized as either a charge or credit to income upon receiving a final commission order. The balance of deferred net power costs at September 30, 2002 has been adjusted for regulatory liability offsets as allowed by the Utah and Idaho Commission orders. On July 18, 2002, the Oregon Public Utility Commission ("OPUC") issued an order approving a stipulation agreement allowing recovery of \$136.5 million for certain deferred net power costs, including \$5.5 million in carrying charges. This order is the subject of a court appeal by the intervening parties. On August 6, 2002, the OPUC allowed the Company to increase the amortization level for these deferred costs, from 3.0% to 6.0%. In October 2002, the Company entered into a voluntary stipulation with one of the intervening parties, supported by the OPUC staff, to allow collections from Oregon customers for these costs to be refunded if, as a result of the foregoing court appeal, an order or ruling is issued declaring all or any portion of these deferred costs imprudent. Amounts subject to refund would include only those collections occurring after the OPUC approves this stipulation, which management expects will occur before March 31, 2003.

Deferred accounting treatment for the effects of SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, ("SFAS No. 133"), on the financial statements of the Company has been granted in all the states the Company serves. The regulatory orders direct the deferral, as a regulatory asset or liability, of the effects of fair valuing long-term contracts that are included in the Company's rates.

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NOTE 3 - Derivative Instruments

On April 1, 2001, the Company adopted SFAS No. 133, as amended by SFAS No. 138 and numerous interpretations of the Derivatives Implementation Group (the "DIG") that are approved by the FASB, collectively "SFAS No. 133." Under SFAS No. 133, derivative instruments are recorded on the Condensed Consolidated Balance Sheet as an asset or liability measured at estimated fair value, with changes in fair value recognized currently in earnings, unless specific hedge accounting criteria are met. As contracts settle, sales are recorded in Revenues, with purchases recorded in Purchased power and Fuel expense on the Condensed Consolidated Statements of Income (Loss) and Retained Earnings. A derivative financial instrument or other contract derives its value from another investment, a designated benchmark, or an underlying price.

The Company's primary business is to serve its retail customers. The Company's business is exposed to risks relating to, but not limited to, changes in certain commodity prices and counterparty performance. The Company enters into derivative instruments, including electricity, natural gas and coal forward, option and swap contracts, and weather contracts to manage its exposure to commodity price and volume risk and ensure supply and thereby attempts to minimize variability in net power costs for customers. The Company has policies and procedures to manage risks inherent in these activities and a Risk Management Committee to monitor compliance with the Company's risk management policies and procedures.

In June 2002, the Company's SFAS No. 133 contract assessments were updated to reflect the revised Issue C15, *Normal Purchase and Normal Sales Exception for Certain Option-Type Contracts and Forward Contracts in Electricity*, ("Issue C15"), guidance from the DIG, effective April 1, 2002. The revision to Issue C-15 includes criteria to be considered for designation of a contract as a "capacity contract" and disallows the use of the exception for contracts that include a pricing element that is not clearly and closely related to the price of energy. The effects of adoption of the revised Issue C15 at April 1, 2002 resulted in a cumulative effect of accounting change adjustment of \$2.1 million unfavorable (net of a tax benefit of \$1.3 million) on the Company's Condensed Consolidated Statements of Income (Loss) and Retained Earnings. For contracts qualifying for deferred accounting under SFAS No. 71, the effect of adopting the revised C15 Issue was \$0.7 million favorable.

In October 2001, the DIG issued guidance under Issue C16, *Applying the Normal Purchases and Normal Sales Exception to Contracts that Combine a Forward Contract and a Purchased Option Contract*, ("Issue C16"). The guidance disallows normal purchases and normal sales treatment for commodity contracts (other than power contracts) that contain volumetric variability or optionality. Issue C16 was effective April 1, 2002. The effects of adoption of Issue C16 at April 1, 2002 resulted in a cumulative effect of accounting change adjustment of \$0.2 million favorable (net of tax of \$0.2 million) on the Company's Condensed Consolidated Statements of Income (Loss) and Retained Earnings. For contracts qualifying for deferred accounting under SFAS

No. 71, the effect of adopting Issue C16 was a fair value of \$126.5 million unfavorable to the Company. The applicable contracts pertain to the purchase and transport of natural gas. The costs of these contracts have been allowed in rates and the liability is, therefore, offset by a corresponding amount included in regulatory assets.

In June 2002, the EITF reached a partial consensus on Issue No. 02-3, *Accounting for Contracts Involved in Energy Trading and Risk Management Activities*, ("EITF No. 02-3"). The partial consensus requires that all mark-to-market gains and losses arising from energy trading contracts (whether realized or unrealized) accounted for under EITF Issue No. 98-10, *Accounting for Contracts Involved in Energy Trading and Risk Management Activities*, ("EITF No. 98-10") be presented on a net basis in the income statement and that the gross transaction volume be disclosed for those energy trading contracts that are physically settled. The net presentation requirement is effective beginning in the first interim period ending after July 15, 2002 and the disclosure requirements are effective for financial statements issued for fiscal years ending after July 15, 2002. Reclassification of all historical periods is required. The impact upon adoption was immaterial.

Through the Company's risk management policies and procedures, as implemented by the Risk Management Committee, the types of instruments the Company may utilize are specifically limited to those instruments that are generally used for hedging volume and price fluctuations associated with the management of resources. Instruments

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are also limited to those commodities representing the Company's principal business (electricity, natural gas and coal). The Company's hedging is done solely to help balance retail and wholesale load. Short-term commodity instruments are occasionally held by the Company for trading purposes. Transactions classified as energy trading activities are accounted for under EITF No. 98-10 and contributed \$1.6 million for the six months ended September 30, 2002. All of these transactions were settled by September 30, 2002.

On October 25, 2002, the EITF agreed to rescind EITF No. 98-10. The EITF retained its June 2002 consensus requiring that revenue from energy trading be reported on a net basis by specifying that this still applies to contracts that are defined as derivatives under SFAS No. 133, even if the power, gas or other commodity is physically delivered. Contracts that meet the definition of a derivative under other FASB rules would still have to be marked to fair value, but most energy-related contracts, such as tolling, capacity, storage, and transportation agreements, would not. This rescission applies to any contracts entered into after October 25, 2002 and would take effect for existing contracts in the first fiscal reporting period beginning after December 15, 2002.

The following table summarizes the SFAS No. 133 movements for the six months ended September 30, 2002:

(Millions of dollars)	Net Asset (Liability)	Regulatory Net Asset (Liability)	Deferred Tax Asset (Liability)	Accumulated Income (Loss)	Other Comprehensive Income (Loss)
Balance at March 31, 2002	\$ (505.9)	\$ 468.4	\$ 14.2	\$ 0.7	\$ (24.0)
Cumulative effect of accounting change	(3.0)	-	1.1	(1.9)	-
Settlements	97.5	(59.1)	(14.5)	(0.1)	24.0
Change in fair value	(182.5)	185.9	(1.4)	1.9	-
Balance at September 30, 2002	\$ (593.9)	\$ 595.2	\$ (0.6)	\$ 0.6	\$ -

During the six months ended September 30, 2002, approximately \$38.7 million (\$24.0 million after-tax) of unrealized net losses on derivative instruments in Accumulated other comprehensive income (loss) reversed as the underlying contracts were settled. A corresponding change to the SFAS No. 133 asset was recorded with no net effect on earnings.

NOTE 4 - Related Party Transactions

There are no loans or advances between PacifiCorp and ScottishPower or between PacifiCorp and PHI. Loans to ScottishPower or PHI are prohibited under the Public Utility Holding Company Act of 1935. Loans from ScottishPower or PHI to PacifiCorp generally would require state regulatory and SEC approval.

The tables below detail the Company's transactions and balances with other unconsolidated related parties.

(Millions of dollars)	September 30, 2002	March 31, 2002
Amounts due from affiliated entities:		
ScottishPower (a)	\$ -	\$ 0.5
PHI subsidiaries (b)	0.8	3.5
	<u>\$ 0.8</u>	<u>\$ 4.0</u>
Amounts due to affiliated entities:		
ScottishPower (c)	\$ 2.5	\$ 0.8
PHI subsidiaries (d)	14.0	1.0
	<u>\$ 16.5</u>	<u>\$ 1.8</u>

(Millions of dollars)	Three Months Ended September 30,		Six Months Ended September 30,	
	2002	2001	2002	2001
Revenues from affiliated entities:				
PHI subsidiaries (e)	<u>\$ 1.4</u>	<u>\$ -</u>	<u>\$ 2.5</u>	<u>\$ -</u>
Expenses incurred from affiliated entities:				
ScottishPower (c)	\$ 2.6	\$ 5.7	\$ 4.9	\$ 7.7
PHI subsidiaries (f)	3.5	-	4.1	-
	<u>\$ 6.1</u>	<u>\$ 5.7</u>	<u>\$ 9.0</u>	<u>\$ 7.7</u>
Expenses recharged to affiliated entities:				
ScottishPower (a)	<u>\$ 0.1</u>	<u>\$ 4.4</u>	<u>\$ 0.3</u>	<u>\$ 4.4</u>
Interest income from affiliated entities:				
ScottishPower (g)	\$ -	\$ 1.8	\$ -	\$ 5.7
PHI subsidiaries (b)	-	2.5	-	4.9
Total affiliated interest income	<u>\$ -</u>	<u>\$ 4.3</u>	<u>\$ -</u>	<u>\$ 10.6</u>

(a) The Company recharges, to ScottishPower, payroll costs and related benefits of employees working for ScottishPower.

(b) Amounts shown relate to activities of the Company and its subsidiaries, with PHI and its subsidiaries.

(c) These expenses and liabilities primarily represent payroll costs and related benefits of ScottishPower employees in management positions with the Company.

(d) Short-term demand loans to PacifiCorp, in accordance with regulatory authorizations, are included in Notes payable and commercial paper.

(e) These revenues primarily represent wheeling revenues received from PacifiCorp Power Marketing, Inc. ("PPM"), a subsidiary of PHI.

(f) These expenses represent operating lease payments for a generation facility owned by a subsidiary of PPM, as discussed below.

(g) Holdings, while a subsidiary of the Company, had a note receivable, interest receivable and related interest income from a directly owned subsidiary of ScottishPower.

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Interest rates on related party transactions approximate the lender's short-term borrowing cost or cost of capital as required by the relevant regulatory approval or exemption. The applicable rate at March 31, 2002 was 1.9% and at September 30, 2002 was 2.2%.

In May 2002, the Company entered into a fifteen year operating lease on an electric generation facility with West Valley Leasing Company, a subsidiary of PPM. This lease was approved by the OPUC. The Company, at its sole option, may terminate the lease after three and after six years. The facility consists of five generation units each rated at 40 megawatts ("MW") and is located in Utah. Scheduled lease payments are \$3.0 million annually per unit. Four of these units were operational June 15, 2002 and the fifth unit became operational at the end of July 2002.

Affiliate transactions with the Company are subject to certain approval and reporting requirements of the regulatory authorities.

NOTE 5 - Revolving Credit Facility

The Company signed new revolving credit agreements that became effective June 4, 2002 with one for \$500.0 million having a 364-day term plus a one-year term loan option, and the other for \$300.0 million having a three-year term. Other provisions are similar to the prior credit agreements. The interest on advances under these facilities is based on LIBOR plus a margin that varies based on the Company's credit ratings. As of September 30, 2002, there were no borrowings outstanding under these facilities.

NOTE 6 - Common Stock

On August 22, 2002, the Board of Directors of the Company approved the issuance of up to 50 million additional shares of its common stock ("Shares") to be sold, from time to time, to PHI, in such amounts and at such times as shall be determined by the Company, but initially not expected to exceed \$300.0 million. Issuance and sale of the Shares is subject to the receipt of cash for the Shares in an amount per share not less than book value at the end of the month prior to the date of the issuance. The Company has received all necessary regulatory approvals. As of September 30, 2002, no Shares had been issued.

NOTE 7 - Commitments and Contingencies

Litigation - From time to time, the Company and its subsidiaries are parties to various legal claims, actions and complaints, certain of which involve material amounts. Although the Company is unable to predict with certainty whether or not it will ultimately be successful in these legal proceedings or, if not, what the impact might be, management currently believes that disposition of these matters will not have a materially adverse effect on the Company's financial position or results of operations.

California and Enron reserves - Beginning in the summer of 2000, market conditions in California resulted in defaults of amounts due to the Company for certain contract counterparties in California. In addition, in December 2001 Enron declared bankruptcy and defaulted on certain wholesale contracts.

The Company is a party to a FERC proceeding that is investigating potential refunds for energy transactions in the California market during past periods of high energy prices. The Company's ultimate exposure to refunds is dependent upon any order issued by the FERC in this proceeding. See **ITEM 1. BUSINESS - DOMESTIC ELECTRIC OPERATIONS - WESTERN POWER MARKET ISSUES** of the Company's 2002 Annual Report on Form 10-K.

The Company provided reserves for its California exposures and its Enron receivable, net of the effect of applying its master netting agreement, in the aggregate amount of \$19.0 million.

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Environmental issues - The Company is subject to numerous environmental laws including: the Federal Clean Air Act, as enforced by the Environmental Protection Agency ("EPA") and various state agencies; the 1990 Clean Air Act Amendments; the Endangered Species Act, particularly as it relates to certain potentially endangered species of fish; the Comprehensive Environmental Response, Compensation and Liability Act, relating to environmental cleanups; along with the Federal Resource Conservation and Recovery Act and the Clean Water Act relating to water quality. These laws could potentially impact future operations. Contingencies identified at September 30, 2002 principally consist of Clean Air Act matters, which are the subject of discussions with the EPA and state regulatory authorities. The Company expects that future costs relating to these matters may be significant and consist primarily of capital expenditures. The Company expects these costs will be included in rates, and as such,

will not have a material adverse impact on the Company's consolidated results of operations.

Hydroelectric relicensing - The Company's hydroelectric portfolio consists of 53 plants with a total capacity of 1,119 MW. Ninety-seven percent of the installed capacity is regulated by the FERC through 20 individual licenses. Nearly all of the Company's hydroelectric projects are in some stage of relicensing under the FPA. Hydro relicensing and the related environmental compliance requirements are subject to a high degree of change in estimation. The Company expects that future costs relating to these matters may be significant and consist primarily of capital expenditures, and that power generation reductions may result from the additional environmental requirements. The Company expects these costs will be included in rates, and as such, will not have a material adverse impact on the Company's consolidated results of operations.

Swift power canal - On April 21, 2002, a failure occurred in the Swift power canal on the Lewis River in the state of Washington. The power canal and associated 70 MW hydroelectric facility ("Swift No. 2") are owned by Cowlitz County Public Utility District ("Cowlitz"). Investigations suggest that Swift No. 2 will be out of service for an extended period of time, possibly more than two years. This failure has impacted the Company's owned and operated 240 MW Swift No. 1 hydroelectric facility, which is upstream of the Swift power canal, by restricting both flow and generation flexibility ("shaping"). Cowlitz and the Company reached agreement on power canal repairs. Such repairs were completed and Swift No. 1 was returned to full capacity levels as of mid-July 2002 (though with limited shaping capabilities). Environmental, operations safety and fish mitigation issues remain to be resolved before full use of Swift No. 1 can be ensured. The Company will continue to seek ways to mitigate any capacity and shaping limitations and also to recover any business losses. The full impact of the Swift outage and plans for repair of the Swift No. 2 facility are being determined. This event is not expected to have a significant impact on the Company's financial position or results of operations.

NOTE 8 - Income Taxes

The Company accrued federal and state income tax expense of \$41.3 million and \$98.1 million, representing effective tax rates of 37.4% and 42.2%, for the six months ended September 30, 2002 and 2001, respectively. The difference between taxes calculated as if the statutory federal tax rate of 35.0% was applied to Income from

continuing operations before income taxes and cumulative effect of accounting change and the recorded tax expense is due to the following:

(Millions of dollars)	Six Months Ended September 30,	
	2002	2001
Computed federal income taxes	\$ 38.6	\$ 81.3
Increase (reduction) in taxes resulting from:		
Depreciation differences	8.3	9.8
Depletion	(0.5)	(1.2)
Investment tax credits	(3.1)	(6.3)
ESOP Dividend pass through	(1.2)	-
Sale of Australian Electric Operations (a)	-	(10.0)
Tax reserves (b)	-	20.9
All other	(4.2)	(3.1)
Total	(0.7)	10.1
Federal income tax	37.9	91.4
State income tax, net of federal income tax benefit	3.4	6.7
Income tax expense on income from continuing operations before cumulative effect of accounting change	\$ 41.3	\$ 98.1

(a) The additional proceeds from the sale of the Australian Electric Operations of \$27.4 million received in June 2001 did not have associated tax expense as they reduced the loss previously reported.

(b) Reserves for tax on outstanding Internal Revenue Service examination issues.

The Company has concluded its settlement discussions with the IRS Appeals Division for the 1991, 1992 and 1993 tax years. The tax impact for this settlement is approximately \$10.3 million. The Company has an established liability for this amount.

The examination of the Company's 1994 through 1998 tax years was completed in July 2002. The IRS issued a Revenue Agent's Report on July 3, 2002 for these years. Further, the IRS also issued a Revenue Agent's Report on July 17, 2002 containing solely the issues agreed upon with the Company. The tax impact for the agreed upon issues is an expense of approximately \$40.9 million. The Company has an established liability for this amount. The Company has filed an administrative appeal for the unagreed issues. The Company believes that final settlement will not have a material adverse impact upon its financial position or results of operations. The IRS started the examination of the 1999 and 2000 tax years in September 2002.

NOTE 9 - Comprehensive Income

The components of comprehensive income are as follows:

(Millions of dollars)	Three Months Ended September 30,		Six Months Ended September 30,	
	2002	2001	2002	2001
Net income (loss)	\$ 31.5	\$ (30.2)	\$ 67.1	\$ 168.0
Other comprehensive income				
Unrealized loss on available-for-sale securities, net of taxes: \$1.9 and \$1.7/2002	(2.4)	-	(2.0)	-
Cumulative gain on adoption of SFAS No. 133, net of taxes: \$377.5/2001	-	-	-	617.2
Reclassification of SFAS No. 133 gain (loss) in earnings, net of taxes: \$14.7/2002 and \$61.9 and \$(55.6)/2001	24.0	101.1	24.0	(90.9)
Unrealized SFAS No. 133 loss, net of taxes: \$(321.8)/2001	-	-	-	(526.1)
Total comprehensive income	\$ 53.1	\$ 70.9	\$ 89.1	\$ 168.2

NOTE 10 - New Accounting Standards

Adoption of New Standard

In June 2001, the FASB issued SFAS No. 142, *Goodwill and Other Intangible Assets*, ("SFAS No. 142"), which addresses financial accounting and reporting for acquired goodwill and other intangible assets and supersedes Accounting Principles Board ("APB") Opinion No. 17, *Intangible Assets*, ("APB No. 17"). SFAS No. 142 specifically states that it does not change the accounting prescribed by SFAS No. 71. This statement was effective for the Company beginning April 1, 2002. The Company has no goodwill recorded on its books. Due to the regulatory treatment for the Company's intangible assets, the adoption of SFAS No. 142 had no material effect on the Company's financial position or results of operations.

In addition, the Company adopted EITF No. 02-3, revised Issue C15 and Issue C16 as discussed in Note 3.

New Standard Issued

In June 2001, the FASB issued SFAS No. 143, *Accounting for Asset Retirement Obligations*, ("SFAS No. 143"). The statement requires the fair value of an asset retirement obligation to be recorded as a liability in the period in which the obligation is incurred. At the same time the liability is recorded, the costs of the asset retirement obligation must be recorded as an addition to the carrying amount of the related asset. Over time, the liability is accreted to its present value and the addition to the carrying amount of the asset is depreciated over the asset's useful life. Upon retirement of the asset, the Company will settle the retirement obligation against the recorded balance of the liability. Any difference in the final retirement obligation cost and the liability will result in the recognition of either a gain or loss. The Company will adopt this statement on April 1, 2003 and is currently evaluating the impact of adopting this statement on its financial position and results of operations.

NOTE 11 - Segment Information

The Company previously operated in two business segments (excluding other and discontinued operations): Domestic Electric Operations and Australian Electric Operations. The Australian Electric Operations were sold in the fall of 2000. The Company currently has one segment, Domestic Electric Operations, which includes the

regulated retail and wholesale electric operations in the six western states in which the Company operates. Other Operations consisted of PFS, as well as the activities of Holdings, which were transferred to PHI in February 2002. Selected information regarding the Company's operating segments are as follows:

(Millions of dollars)	Total Company	Domestic Electric Operations	Australian Electric Operations	Discontinued Operations	Other Operations & Eliminations
For the three months ended:					
September 30, 2002					
Net external revenues	\$ 944.1	\$ 944.1	\$ -	\$ -	\$ -
Income from continuing operations	31.5	31.5	-	-	-
September 30, 2001					
Net external revenues	\$ 1,244.2	\$ 1,241.8	\$ -	\$ -	\$ 2.4
Loss from continuing operations	(30.2)	(24.7)	-	-	(5.5)
For the six months ended:					
September 30, 2002					
Net external revenues	\$ 1,833.9	\$ 1,833.9	\$ -	\$ -	\$ -
Income from continuing operations	69.0	69.0	-	-	-
Loss from cumulative effect of accounting change	(1.9)	(1.9)	-	-	-
September 30, 2001					
Net external revenues	\$ 2,525.8	\$ 2,515.9	\$ -	\$ -	\$ 9.9
Income from continuing operations	134.1	101.5	27.4 (a)	-	5.2
Income from discontinued operations	146.7	-	-	146.7 (b)	-
Loss from cumulative effect of accounting change	(112.8)	(112.8)	-	-	-

(a) In June 2001, upon resolution of a contingency under the provisions of a portion of the Australian Electric Operations sale agreement, the Company received further proceeds from the sale in the amount of \$27.4 million.

(b) Amounts for the six months ended September 30, 2001 represent the collection of a contingent note receivable relating to the discontinued operations of a former mining and resource development business, NERCO, Inc., which was sold in 1993.

NOTE 12 - Independent Accountants Review Report

The Company's Quarterly Reports on Form 10-Q are incorporated by reference into various filings under the Securities Act of 1933 (the "Act"). The Company's independent accountants are not subject to the liability provisions of Section 11 of the Act for their report on the unaudited condensed consolidated financial information because such report is not a "report" or a "part" of a registration statement prepared or certified by independent accountants within the meaning of Sections 7 and 11 of the Act.

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Shareholders of PacifiCorp:

We have reviewed the accompanying condensed consolidated balance sheet of PacifiCorp and its subsidiaries as of September 30, 2002, and the related condensed consolidated statements of income (loss) and retained earnings for each of the three-month and six-month periods ended September 30, 2002 and 2001 and the condensed consolidated statements of cash flows for the six-month periods ended September 30, 2002 and 2001. These financial statements are the responsibility of the Company's management.

We conducted our review in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical procedures to financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, 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 review, we are not aware of any material modifications that should be made to the accompanying condensed consolidated interim financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

We previously audited in accordance with auditing standards generally accepted in the United States of America, the consolidated balance sheet as of March 31, 2002, and the related statements of consolidated income, changes in common shareholder's equity and cash flows for the year then ended (not presented herein), and in our report dated May 1, 2002 we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of March 31, 2002, is fairly stated in all material respects in relation to the consolidated balance sheet from which it has been derived.

PricewaterhouseCoopers LLP
Portland, Oregon

November 4, 2002

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

OVERVIEW

On December 31, 2001, NA General Partnership ("NAGP") transferred all of the common stock of PacifiCorp (the "Company") to PacifiCorp Holdings, Inc. ("PHI"). PacifiCorp subsequently transferred all of the capital stock of PacifiCorp Group Holdings Company ("Holdings") to PHI in February 2002. Holdings includes the wholly owned subsidiary, PacifiCorp Financial Services, Inc. ("PFS"), a financial services business. This transfer was made to better separate PacifiCorp's regulated utility business from its non-utility operations. As a result, the operations of Holdings are included as Other Operations in the Company's Condensed Consolidated Statement of Income (Loss) and Retained Earnings and Condensed Consolidated Statement of Cash Flows for the three and six months ended September 30, 2001, but are not included for the three and six months ended September 30, 2002.

CRITICAL ACCOUNTING POLICIES

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect results of operations and the reported

amounts of assets and liabilities in the consolidated financial statements. Changes in these estimates and assumptions could have a material impact on the Company's financial position and results of operations. Those policies that management considers critical are Regulation, Revenue Recognition, Allowance for Doubtful Accounts, Derivatives, Depreciation, Pensions and Contingent Tax Liability and are described in the Company's Annual Report on Form 10-K under **ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.**

FORWARD-LOOKING STATEMENTS

The information in the tables and text in this document includes certain forward-looking statements that involve a number of risks and uncertainties that may influence the financial performance and earnings of the Company. When used in this **MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**, the words "estimates," "expects," "anticipates," "forecasts," "plans," "intends" and variations of such words and similar expressions are intended to identify forward-looking statements that involve risks and uncertainties. There can be no assurance the results predicted will be realized. Actual results may vary from those represented by the forecasts, and those variations may be material. The following are among the factors that could cause actual results to differ materially from the forward-looking statements:

- . federal and state utility commission practices;
- . political developments;
- . regional, national and international economic conditions;
- . weather and behavioral variations affecting customer electricity usage;
- . competition and supply in bulk power and natural gas markets;
- . hydroelectric and natural gas production levels;
- . changes in coal quality and prices;
- . unscheduled generation outages;
- . disruption or constraints to transmission or distribution facilities;
- . outcome of hydroelectric facility relicensing;
- . energy purchase and sales activities;
- . changes in environmental, regulatory or tax legislation, including industry restructure and deregulation initiatives;
- . nonperformance by counterparties;
- . technological developments in the electricity industry;
- . outcome of rate cases submitted for regulatory approval;
- . outcome of litigation;
- . workforce factors;
- . cost and availability of insurance;
- . pension and healthcare costs;
- . outcome of IRS tax settlements;

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- . new accounting pronouncements;
- . terrorist activity;
- . credit rating changes; and
- . the cost and availability of debt and equity capital.

Any forward-looking statements issued by the Company should be considered in light of these factors. The Company assumes no obligation to update or revise any forward-looking statements to reflect actual results, changes in assumptions or changes in other factors affecting such forward-looking statements or if the Company later becomes aware that these assumptions are not likely to be achieved.

RESULTS OF OPERATIONS

The western U.S. wholesale energy market was relatively stable during the six months ended September 30, 2002 as compared to the prior period. The Company took several actions to maintain a balanced net energy position through the summer peak period and for the remainder of this fiscal year. The Company added the 120 megawatt ("MW") gas-fired peaking plant in Utah, which came on line in August 2002. The Company also entered into an operating lease arrangement for a 200 MW peaking plant in Utah with a subsidiary of PacifiCorp Power Marketing, a subsidiary of PHI. These actions, as well as other flexible physical hedging, were instrumental in the Company maintaining a balanced energy position during the period.

The Company has made progress toward recovering the deferred net power costs incurred during the period of extreme volatility and unprecedented high price levels beginning in the summer of 2000 and extending through the summer of 2001. These costs are being recovered through the following rate orders: (i) \$147.0 million in Utah, approved on May 1, 2002 and recoverable through a

\$29.5 million annual surcharge for two years and regulatory liability offsets and (ii) \$25.0 million in Idaho, approved on June 7, 2002 and recoverable through a \$22.7 million surcharge over two years and regulatory liability offsets. On July 18, 2002, the Oregon Public Utility Commission ("OPUC") issued an order approving a stipulation agreement allowing recovery of \$136.5 million for certain deferred net power costs, including \$5.5 million in carrying charges. This order is the subject of a court appeal by intervening parties. In August 2002, the OPUC allowed the Company to increase the amortization level for these deferred costs from 3.0% to 6.0%. In October 2002, the Company entered into a voluntary stipulation with one of the intervening parties, supported by the OPUC staff, to allow collections from Oregon customers for these costs to be refunded if, as a result of the foregoing court appeal, an order or ruling is issued declaring all or any portion of these deferred costs imprudent. Amounts subject to refund would include only those collections occurring after the OPUC approves this stipulation, which management expects will occur before March 31, 2003. In Wyoming, the Company has requested recovery of \$91.0 million in deferred net power costs to be recovered through two surcharges over three years. The Company currently expects an order on this request before March 31, 2003. In Washington, the Company has requested recovery of \$17.5 million of excess power costs, including carrying charges, to be recovered through regulatory liability offsets of the Centralia gain and Merger Credits and/or surcharges. A final decision is expected by March 2003.

COMPARISON OF THE THREE MONTHS ENDED SEPTEMBER 30, 2002 and 2001

The Company's earnings contribution on common stock for the three months ended September 30, 2002 was \$29.7 million compared to a loss of \$34.6 million for the three months ended September 30, 2001. The increase in earnings contribution of \$64.3 million was due primarily to higher retail revenues resulting from rate increases and lower net power costs.

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(Millions of dollars)	Three Months Ended September 30,		\$ Change	% Change
	2002	2001	Favorable/(Unfavorable)	
Earnings (loss) contribution on common stock: (a)				
Domestic Electric Operations	\$ 29.7	\$ (29.1)	\$ 58.8	202.1 %
Other Operations (b)	-	(5.5)	5.5	100.0
Total	\$ 29.7	\$ (34.6)	\$ 64.3	185.8

(a) Earnings (loss) contribution on common stock by segment: (i) does not reflect elimination of interest on intercompany borrowing arrangements; (ii) includes income taxes on a separate company basis, with any benefit or detriment of consolidation reflected in Other Operations; and (iii) is net of preferred dividend requirements and minority interest (which is reported as a component of Minority interest and other).

(b) All Other Operations were transferred to PHI on February 4, 2002.

<u>REVENUES</u>				
(Millions of dollars)	Three Months Ended		\$ Change	% Change
	September 30,			
	2002	2001	Favorable/(Unfavorable)	
Domestic Electric Operations				
Residential	\$ 225.9	\$ 208.5	\$ 17.4	8.3 %
Commercial	200.4	191.3	9.1	4.8
Industrial	199.4	196.8	2.6	1.3
Other retail revenues	8.3	9.5	(1.2)	(12.6)
Retail sales	634.0	606.1	27.9	4.6
Wholesale sales	260.1	587.9	(327.8)	(55.8)
Other revenues	50.0	47.8	2.2	4.6
Total	944.1	1,241.8	(297.7)	(24.0)
Other operations	-	2.4	(2.4)	(100.0)
Total Revenues	\$ 944.1	\$ 1,244.2	\$ (300.1)	(24.1)
Energy sales (Millions of kWh)				
Residential	3,192	3,119	73	2.3
Commercial	3,729	3,703	26	0.7
Industrial	5,109	5,323	(214)	(4.0)
Other	177	204	(27)	(13.2)
Retail sales	12,207	12,349	(142)	(1.1)
Wholesale sales	7,464	6,434	1,030	16.0
Total	19,671	18,783	888	4.7
Average residential usage (kWh)	2,455	2,429	26	1.1
Total retail customers - end of period (In thousands)	1,526	1,506	20	1.3

Residential revenues for the three months ended September 30, 2002 increased \$17.4 million, or 8.3%, from the three months ended September 30, 2001 due to increases of \$11.6 million from higher prices, \$3.0 million from higher average customer usage, mainly in Oregon, and \$2.8 million relating to growth in the average number of residential customers, mainly in Utah.

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Commercial revenues for the three months ended September 30, 2002 increased \$9.1 million, or 4.8%, from the three months ended September 30, 2001 due to increases of \$8.4 million from higher prices. Growth in the average number of commercial customers increased revenues \$4.3 million. These increases were partially offset by a \$3.6 million decrease due to the effect of lower average customer usage.

Industrial revenues for the three months ended September 30, 2002 increased \$2.6 million, or 1.3%, from the three months ended September 30, 2001 due to increases of \$14.0 million from higher prices, offset by an \$11.4 million decrease caused by reduced average customer usage.

Wholesale sales for the three months ended September 30, 2002 decreased \$327.8 million, or 55.8%, from the three months ended September 30, 2001. The decrease in revenues in the current period resulted from the sharp decline in market prices for short-term and spot market sales as compared to those in the prior period. Factors contributing to the lower market prices included more generation online in the western U.S. and increased hydroelectric generation. Megawatt-hour wholesale sales increased 16.0%. Volumes for short-term and spot market sales increased significantly as the Company took advantage of lower prices to meet its load requirement and sold excess power in the daily and hourly markets.

Other revenues for the three months ended September 30, 2002 increased \$2.2 million, or 4.6%, from the three months ended September 30, 2001 due primarily to a \$20.7 million release of reserves on a power sales contract following a settlement of a dispute with respect to the contract, offset by a \$7.3 million decrease in wheeling revenues, from decreased usage of the Company's transmission system by third parties, a \$7.1 million decrease in interest on deferred power costs, a \$2.4 million decrease in demand side management revenue, and a \$2.0 million decrease in rent revenue.

See Part II, Item 5. Other Information for information regarding recent developments in regulatory issues affecting the Company.

<u>OPERATING EXPENSES</u>				
(Millions of dollars)	Three Months Ended		\$ Change	% Change
	September 30,			
	2002	2001	Favorable/(Unfavorable)	
Domestic Electric Operations				
Purchased power	\$ 358.7	\$ 768.4	\$ 409.7	53.3 %
Fuel	133.2	128.6	(4.6)	(3.6)
Other operations and maintenance	128.8	132.9	4.1	3.1
Depreciation and amortization	108.5	99.5	(9.0)	(9.0)
Administrative and general	62.7	59.0	(3.7)	(6.3)
Taxes, other than income taxes	25.3	19.0	(6.3)	(33.2)
Unrealized (gain) loss on SFAS No. 133 - derivative instruments	(5.3)	28.1	33.4	118.9
Total	811.9	1,235.5	423.6	34.3
Other Operations	-	3.2	3.2	100.0
Total operating expenses	\$ 811.9	\$ 1,238.7	\$ 426.8	34.5

Purchased power expense for the three months ended September 30, 2002 decreased \$409.7 million, or 53.3%, from the three months ended September 30, 2001. The decrease in purchased power costs in the current period resulted from significantly lower market prices for short-term and spot market purchases from prices in the prior period. Lower market prices resulted from the same factors mentioned above for lower wholesale sales. Megawatt-hour wholesale purchases increased 26.7% as the Company took advantage of lower prices to meet its load requirements and replaced higher cost generation. Purchased power costs also decreased due to lower demand side management costs. Purchased power costs in the current period reflected \$112.0 million less deferral of power costs than the prior period.

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Fuel expense for the three months ended September 30, 2002 increased \$4.6 million, or 3.6% from the three months ended September 30, 2001, primarily due to \$8.8 million in higher coal prices offset by \$4.3 million due to lower volumes of fuel consumed. Fuel consumption decreased due to reduced thermal generation resulting from increased purchases of short-term power.

Other operations and maintenance expense for the three months ended September 30, 2002 decreased \$4.1 million, or 3.1%, from the three months ended September 30, 2001 primarily due to a \$10.7 million decrease resulting from the temporary lease of a generating turbine in the prior period, which was offset by a \$4.4 million increase due to the level and timing of capital projects and a \$2.1 million increase in employee related costs.

Depreciation and amortization expense for the three months ended September 30, 2002 increased \$9.0 million, or 9.0%, from the three months ended September 30, 2001 primarily due to increased expenditures on Property, plant and equipment resulting in a \$6.0 million increase in depreciation expense and a \$3.6 million increase in the current year period due to the termination at March 31, 2002 of a two-year depreciation expense reduction ordered by state regulatory commissions.

Administrative and general expenses for the three months ended September 30, 2002 increased \$3.7 million, or 6.3%, from the three months ended September 30, 2001 primarily due to a \$5.2 million increase in property and liability insurance costs resulting from higher premiums and employee related expenses of \$3.0 million. These increases were partially offset by a \$3.8 million decrease in consulting and outside services.

Taxes, other than income taxes, for the three months ended September 30, 2002 increased \$6.3 million, or 33.2%, from the three months ended September 30, 2001 primarily due to higher property tax expense.

The unrealized gain on SFAS No. 133 derivative instruments for the three months ended September 30, 2002 was \$5.3 million due to unrealized gains on long-term contracts. For the three months ended September 30, 2001, there was an unrealized loss of \$28.1 million primarily due to settlement of short-term contracts. Beginning July 1, 2002, most short-term contracts were designated as normal purchases and sales, exempting them from the mark-to-market requirements of SFAS No. 133.

<u>INTEREST EXPENSE AND OTHER (INCOME) EXPENSE</u>					
(Millions of dollars)	Three Months Ended September 30,		\$ Change	% Change	
	2002	2001	Favorable/(Unfavorable)		
Interest expense	\$ 80.6	\$ 52.4	\$ (28.2)	(53.8) %	
Interest income	(2.9)	(6.5)	(3.6)	(55.4)	
Interest capitalized	(4.4)	(2.1)	2.3	109.5	
Minority interest and other (a)	5.7	(5.1)	(10.8)	(211.8)	
Total	\$ 79.0	\$ 38.7	\$ (40.3)	(104.1)	

(a) Minority interest and other includes payments of \$7.1 million on Preferred Securities of wholly owned subsidiary trusts for each of the three month periods ended September 30.

Interest expense increased \$28.2 million, or 53.8%, primarily due to higher debt balances and \$17.4 million of interest on regulatory liabilities. These increases were partially offset by lower short-term and variable interest rates. The Company issued \$800.0 million of new long-term debt in November 2001.

Interest income decreased \$3.6 million, or 55.4%, primarily due to the transfer of Holdings to PHI in February 2002, partially offset by the recognition of \$1.1 million of interest income on a power sales contract settlement in September 2002. The Interest income of Holdings is no longer included in the Company's results.

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Interest capitalized increased \$2.3 million, or 109.5% due to higher capitalization rates and increased construction work-in-progress balances in the current period.

Minority interest and other increased \$10.8 million, or 211.8%. Minority interest was constant year over year. During the three months ended September 30, 2001, proceeds on life insurance policies were \$2.0 million greater than the current year period and the Company recorded a \$1.9 million gain on the reversal of a previously recorded liability that was no longer needed. Other income relating to Holdings for the three months ended September 30, 2001 was \$5.0 million.

INCOME TAX EXPENSE

Income tax expense was \$21.7 million for the three months ended September 30, 2002 compared to an income tax benefit of \$3.0 million for the three months ended September 30, 2001. The effective tax rate for the three months ended September 30, 2002 was 40.8% compared to a 9.0% effective tax rate for the three months ended September 30, 2001. For the three months ended September 30, 2001, the effective tax rate differs from the statutory rate primarily due to the additional tax reserves established. See Note 8 of the **NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS** under **ITEM 1. FINANCIAL STATEMENTS**.

COMPARISON OF THE SIX MONTHS ENDED SEPTEMBER 30, 2002 and 2001

The Company's earnings contribution on common stock for the six months ended September 30, 2002 was \$63.4 million compared to \$159.2 million for the six months ended September 30, 2001. Revenues from rate increases and lower net power costs improved earnings, however these were offset by the following items: (i) a \$146.9 million unfavorable change in Unrealized gains on SFAS No. 133 derivative instruments; (ii) losses of \$112.8 million due to changes in accounting relating to the adoption of SFAS No. 133 in 2001 and losses of \$1.9 million in 2002 due to revised Issue C15 and Issue C16; (iii) \$146.7 million of income in 2001 from the discontinued operations of a former mining and resource development business; and (iv) a \$27.4 million gain in 2001 from the sale of Australian Electric Operations.

(Millions of dollars)	Six Months Ended September 30,		\$ Change	% Change
	2002	2001	Favorable/(Unfavorable)	
Earnings contribution on common stock: (a)				
Domestic Electric Operations	\$ 65.3	\$ 92.7	\$ (27.4)	(29.6) %
Australian Electric Operations	-	27.4	(27.4)	(100.0)
Other Operations (b)	-	5.2	(5.2)	(100.0)
Continuing operations	65.3	125.3	(60.0)	(47.9)
Discontinued operations (c)	-	146.7	(146.7)	(100.0)
Cumulative effect of accounting change (d)	(1.9)	(112.8)	110.9	98.3
Total	\$ 63.4	\$ 159.2	\$ (95.8)	(60.2)

(a) Earnings contribution on common stock by segment: (i) does not reflect elimination of interest on intercompany borrowing arrangements; (ii) includes income taxes on a separate company basis, with any benefit or detriment of consolidation reflected in Other Operations; and (iii) is net of preferred dividend requirements and minority interest (which is reported as a component of Minority interest and other).

(b) All Other Operations were transferred to PHI on February 4, 2002.

(c) The amount for the six months ended September 30, 2001 represents the collection of a contingent note receivable relating to the discontinued operations of a former mining and resource development business, NERCO, Inc. ("NERCO"), which was sold in 1993.

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(d) Represents the effect of implementation of Statement of Financial Accounting Standards ("SFAS") No. 133, *Accounting for Derivative Instruments and Hedging Activities*, ("SFAS No. 133") at April 1, 2001 and the implementation of the Derivatives Implementation Group ("DIG") revised Issue C15 and Issue C16 at April 1, 2002.

<u>REVENUES</u>				
(Millions of dollars)	Six Months Ended		\$ Change	% Change
	September 30,			
	2002	2001	Favorable/(Unfavorable)	
Domestic Electric Operations				
Residential	\$ 431.0	\$ 397.2	\$ 33.8	8.5 %
Commercial	386.5	375.2	11.3	3.0
Industrial	366.3	384.3	(18.0)	(4.7)
Other retail revenues	16.6	18.1	(1.5)	(8.3)
Retail sales	1,200.4	1,174.8	25.6	2.2
Wholesale sales	553.6	1,244.5	(690.9)	(55.5)
Other revenues	79.9	96.6	(16.7)	(17.3)
Total	1,833.9	2,515.9	(682.0)	(27.1)
Other operations	-	9.9	(9.9)	(100.0)
Total Revenues	\$ 1,833.9	\$ 2,525.8	\$ (691.9)	(27.4)
Energy sales (Millions of kWh)				
Residential	6,131	5,959	172	2.9
Commercial	7,109	7,046	63	0.9
Industrial	9,718	10,420	(702)	(6.7)
Other	352	378	(26)	(6.9)
Retail sales	23,310	23,803	(493)	(2.1)
Wholesale sales	17,529	11,524	6,005	52.1
Total	40,839	35,327	5,512	15.6
Average residential usage (kWh)	4,722	4,650	72	1.5
Total retail customers - end of period (In thousands)	1,526	1,506	20	1.3

Residential revenues for the six months ended September 30, 2002 increased \$33.8 million, or 8.5%, from the six months ended September 30, 2001 primarily due to increases of \$21.1 million from higher prices, resulting from concluded regulatory proceedings, \$7.4 million from higher average customer usage, and \$5.3 million relating to growth in the average number of residential customers, mainly in Utah.

Commercial revenues for the six months ended September 30, 2002 increased \$11.3 million, or 3.0%, from the six months ended September 30, 2001 primarily due to increases of \$8.8 million from higher prices. Growth in the average number of commercial customers increased revenues \$8.5 million. This increase was partially offset by a \$6.0 million decrease due to the effect of lower average customer usage mainly as a result of milder weather conditions.

Industrial revenues for the six months ended September 30, 2002 decreased \$18.0 million, or 4.7%, from the six months ended September 30, 2001 primarily due to a \$27.6 million decrease caused by reduced average customer usage mainly as a result of a weaker economy in Oregon, partially offset by a \$9.6 million increase resulting from higher prices.

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Wholesale sales for the six months ended September 30, 2002 decreased \$690.9 million, or 55.5%, from the six months ended September 30, 2001. The decrease in revenues in the current period resulted from the sharp decline in market prices for short-term and spot market sales as compared to those in the prior period. Factors contributing to the lower market prices included more generation online in the western U.S., lower natural gas prices and increased hydroelectric generation. Megawatt-hour wholesale sales increased 52.1%. Volumes for short-term and spot market sales increased significantly as the Company took advantage of lower prices to meet its load requirement and sold excess power in the daily and hourly markets.

Other revenues for the six months ended September 30, 2002 decreased \$16.7 million, or 17.3%, from the six months ended September 30, 2001 primarily due to a \$23.6 million decrease in wheeling revenues, caused by decreased usage of the Company's transmission system by third parties, a \$7.7 million decrease in demand side management revenues, a \$4.7 million decrease in revenues due to the termination of Oregon's Alternative Form of Regulation ("AFOR") and a \$5.0 million decrease in interest on deferred power costs. These decreases were partially offset by a \$20.7 million release of reserves on a power sales contract

following a settlement of a dispute with respect to the contract and a \$2.2 million increase in a renewable power sales contract.

See Part II, Item 5. Other Information for information regarding recent developments in regulatory issues affecting the Company.

<u>OPERATING EXPENSES</u>				
(Millions of dollars)	Six Months Ended		\$ Change	% Change
	September 30,			
	2002	2001	Favorable/(Unfavorable)	
Domestic Electric Operations				
Purchased power	\$ 675.2	\$ 1,503.4	\$ 828.2	55.1 %
Fuel	230.5	245.7	15.2	6.2
Other operations and maintenance	270.5	282.0	11.5	4.1
Depreciation and amortization	214.9	198.2	(16.7)	(8.4)
Administrative and general	142.7	116.3	(26.4)	(22.7)
Taxes, other than income taxes	48.1	43.2	(4.9)	(11.3)
Unrealized gain on SFAS No. 133 - derivative instruments	(3.1)	(150.0)	(146.9)	(97.9)
Total	1,578.8	2,238.8	660.0	29.5
Other Operations	-	7.2	7.2	100.0
Total operating expenses	\$ 1,578.8	\$ 2,246.0	\$ 667.2	29.7

Purchased power expense for the six months ended September 30, 2002 decreased \$828.2 million, or 55.1%, from the six months ended September 30, 2001. The decrease in purchased power costs in the current period resulted from significantly lower market prices for short-term and spot market purchases from prices in the prior period. Lower market prices resulted from the same factors mentioned above for lower wholesale sales. Megawatt-hour wholesale purchases increased 51.0% as the Company took advantage of lower prices to meet its load requirements and replaced higher cost generation. Purchased power costs also decreased due to lower demand side management costs. Purchased power costs in the current period reflected \$156.3 million less deferral of power costs than the prior period.

Fuel expense for the six months ended September 30, 2002 decreased \$15.2 million, or 6.2% from the six months ended September 30, 2001, due to lower volumes of fuel consumed, offset by higher coal prices. Fuel consumption decreased due to a reduction in thermal generation resulting from increased purchases of short-term power.

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Other operations and maintenance expense for the six months ended September 30, 2002 decreased \$11.5 million, or 4.1%, from the six months ended September 30, 2001 primarily due to an \$18.3 million decrease resulting from the temporary lease of a generating turbine in the prior period, which was partially offset by the establishment of a \$7.0 million reserve for California exposures in the current period.

Depreciation and amortization expense for the six months ended September 30, 2002 increased \$16.7 million, or 8.4%, from the six months ended September 30, 2001 primarily due to increased expenditures on Property, plant and equipment, which resulted in a \$4.9 million increase in depreciation expense, and increased software amortization of \$2.5 million. Depreciation and amortization expense also increased \$7.2 million due to the termination at March 31, 2002 of a two-year depreciation expense reduction ordered by state regulatory commissions.

Administrative and general expenses for the six months ended September 30, 2002 increased \$26.4 million, or 22.7%, from the six months ended September 30, 2001 primarily due to increased property and liability insurance costs of \$17.2 million resulting from higher premiums, insurance reserves and storm damage, and increased employee related expenses of \$7.0 million.

Taxes, other than income taxes, for the six months ended September 30, 2002 increased \$4.9 million, or 11.3%, from the six months ended September 30, 2001 primarily due to higher property tax expense.

The unrealized gain on SFAS No. 133 derivative instruments for the six months ended September 30, 2002 was \$3.1 million compared to \$150.0 million for the six months ended September 30, 2001 primarily due to implementation of Issue C15, on July 1, 2001, which resulted in the designation of the majority of the Company's short-term contracts as normal purchases and sales. See Note 3 of the **NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS** under ITEM 1.

FINANCIAL STATEMENTS.**GAIN ON SALE OF AUSTRALIAN ELECTRIC OPERATIONS**

In June 2001, upon resolution of a contingency under the provisions of a portion of the Australian Electric Operations sale agreement, the Company received further proceeds due from the sale in the amount of \$27.4 million.

INTEREST EXPENSE AND OTHER (INCOME) EXPENSE

(Millions of dollars)	Six Months Ended September 30,		\$ Change	% Change
	2002	2001	Favorable/(Unfavorable)	
Interest expense	\$ 144.6	\$ 107.4	\$ (37.2)	(34.6) %
Interest income	(5.0)	(14.7)	(9.7)	(66.0)
Interest capitalized	(9.9)	(4.4)	5.5	125.0
Minority interest and other (a)	15.1	(13.3)	(28.4)	(213.5)
Total	\$ 144.8	\$ 75.0	\$ (69.8)	(93.1)

(a) Minority interest and other includes payments of \$14.2 million on Preferred Securities of wholly owned subsidiary trusts for each of the six month periods ended September 30.

Interest expense increased \$37.2 million, or 34.6%, primarily due to higher debt balances and \$17.4 million of interest on regulatory liabilities. These increases were partially offset by lower short-term and variable interest rates and variable interest rates. The Company issued \$800.0 million of new long-term debt in November 2001.

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Interest income decreased \$9.7 million, or 66.0%, primarily due to the transfer of Holdings to PHI in February 2002, partially offset by the recognition of \$1.1 million of interest income on a power sales contract settlement in September 2002. Interest income of Holdings is no longer included in the Company's results.

Interest capitalized increased \$5.5 million, or 125.0%, due to higher capitalization rates and increased construction work-in-progress balances in the current period.

Minority interest and other increased \$28.4 million, or 213.5%. Minority interest was constant year over year. Other expense increased partially due to the reversal in the current period of a previously recorded gain of \$3.4 million as a result of a regulatory order. During the six months ended September 30, 2002, proceeds on life insurance policies decreased \$1.6 million from the prior year and a \$1.3 million unfavorable adjustment to the cash surrender value of life insurance policies was recorded. During the six months ended September 30, 2001, the Company recorded a \$6.3 million gain on the reversals of previously recorded liabilities that were no longer needed, a \$9.3 million gain on the sales of leased aircraft owned by PFS and a \$3.5 million gain on the sales of non-utility investments held by Holdings.

INCOME TAX EXPENSE

Income tax expense decreased \$56.8 million principally due to the lower taxable income in the current period. The effective tax rate for the six months ended September 30, 2002 was 37.4% compared to a 42.2% effective tax rate for the six months ended September 30, 2001. See Note 7 of the **NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS** under **ITEM 1. FINANCIAL STATEMENTS**.

DISCONTINUED OPERATIONS

The Company recognized \$146.7 million of income during the six months ended September 30, 2001 as a result of collecting a contingent note receivable relating to the discontinued operations of its former mining and resource development business, NERCO, which was sold in 1993. Deferred tax expense of \$36.4 million was recognized on the gain in June 2001.

LIQUIDITY AND CAPITAL RESOURCES**OPERATING ACTIVITIES**

Net cash flows provided by operating activities were \$200.1 million for the six months ended September 30, 2002 compared to a usage of \$91.8 million for the six months ended September 30, 2001. The increase of \$291.9 million in operating cash flows was primarily attributable to higher purchased power prices included in the prior period that were not being recovered through regulated rates, as well as the non-cash impact of the gain on the disposal of discontinued operations in the prior period of \$146.7 million and the net change in unrealized gain on SFAS No. 133 of \$146.9 million.

Due to recent law changes, the Company is allowed to take advantage of an additional first year depreciation deduction amounting to 30.0% of qualified assets placed in service from September 11, 2001 through September 11, 2004. This additional deduction allows the Company to reduce cash outlays in the initial years of an asset's life due to increased tax depreciation, which will result in reduced current taxable income.

INVESTING ACTIVITIES

Capital spending totaled \$253.1 million for the six months ended September 30, 2002 compared to \$208.6 million for the six months ended September 30, 2001. Year to date capital spending is in line with the construction program outlined in the Company's 2002 Annual Report on Form 10-K. The increase was primarily due to expenditures for new generation, network growth, system upgrades and other capital projects. Proceeds from sales of assets for the six months ended September 30, 2002 represented sales of utility properties and for the six months ended

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September 30, 2001 represented additional proceeds relating to the disposal of Australian Electric Operations. Proceeds from a finance note repayment in the prior period represented the payment of a note receivable held by Holdings relating to the discontinued operations of NERCO. Certain investing activities for the six months ended September 30, 2001 do not appear in the six months ended September 30, 2002 due to the transfer of Holdings and its subsidiaries from PacifiCorp to PHI.

The Company plans to increase the level of its capital investment by an additional \$102.0 million along the Wasatch Front in Utah to expand the distribution network. That area of Utah has experienced rapid load growth, including increased peak demand during periods of prolonged hot weather. The capital investments are intended to provide the Wasatch Front region with a more stable power supply and capacity for future natural growth, heat demand and emergency situations.

FINANCING ACTIVITIES

The Company does not utilize "off-balance sheet" financing arrangements other than operating leases, which are accounted for in accordance with SFAS No. 13, *Accounting for Leases*.

The Company's short-term borrowings and certain other financing arrangements are supported by \$800.0 million of revolving credit agreements that became effective June 4, 2002 with one facility for \$500.0 million having a 364-day term plus a one-year term loan option, and the other facility for \$300.0 million having a three-year term. Other provisions are similar to prior credit agreements. As of September 30, 2002, there were no borrowings outstanding under these facilities. The interest on advances under these facilities is based on LIBOR plus a margin that varies based on the Company's credit ratings. In addition to these committed credit facilities, the Company had \$7.5 million in money market accounts included in Cash and cash equivalents at September 30, 2002 available to meet its liquidity needs.

For the six months ended September 30, 2002, the Company redeemed \$7.5 million of preferred stock as compared to \$100.0 million for the six months ended September 30, 2001.

During the six months ended September 30, 2002, the Company declared no dividends on common stock. The Company declared dividends of \$1.9 million and \$1.8 million on preferred stock on May 24, 2002 and August 22, 2002, respectively. Dividends payable on preferred stock at September 30, 2002 totaled \$1.8 million and are payable on November 15, 2002.

Management expects existing funds and cash generated from operations, together with existing credit facilities, to be sufficient to fund liquidity requirements for the next 12 months. However, many participants in the electric utility industry have experienced a period of negative news and ratings downgrades. While the Company to date has been able to adequately fund itself and expects to be able to continue to do so, further negative events by other industry participants may make it more difficult and expensive for the Company to obtain necessary financing or replace financing agreements at their maturity.

CREDIT RATINGS

The Company's credit ratings at September 30, 2002 were as follows:

	Moody's	S & P
Senior secured debt	A3	A
Senior unsecured debt	Baa1	BBB+
Preferred stock	Baa3	BBB
Commercial paper	P-2	A-2

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These ratings are unchanged from March 31, 2002. These security ratings are not recommendations to buy, sell or hold securities. The ratings are subject to change or withdrawal at any time by the respective credit rating agencies. Each credit rating should be evaluated independently of any other rating.

For a further discussion of the Company's credit ratings, see **ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS** in the Company's 2002 Annual Report on Form 10-K.

CAPITALIZATION

At September 30, 2002, PacifiCorp had \$253.9 million of commercial paper and other short-term borrowings outstanding at a weighted average rate of 2.0%. These borrowings and other financing arrangements are supported by revolving credit agreements and cash on hand as described above.

CONTRACTUAL OBLIGATIONS AND COMMERCIAL COMMITMENTS

The tables below show the Company's contractual obligations and commercial commitments as of September 30, 2002 for each of the 12-month periods ended September 30.

<u>Contractual Obligations</u>					
(Millions of dollars)	Payments Due by Period				
	2003	2004 - 2005	2006 - 2007	Thereafter	Total
Short-term debt, including interest	\$ 254.0	\$ -	\$ -	\$ -	\$ 254.0
Long-term debt, including interest (a)	312.4	844.1	804.5	4,118.6	6,079.6
Capital lease minimum payments	3.3	6.9	7.2	54.0	71.4
Junior subordinated debentures (b)	28.3	56.6	56.6	1,178.5	1,320.0
Preferred stock	3.8	7.5	56.3	-	67.6
Power contract commitments (c)	703.3	1,100.2	903.9	2,972.8	5,680.2
Operating leases	20.9	35.6	5.3	12.1	73.9
Total contractual cash obligations	\$ 1,326.0	\$ 2,050.9	\$ 1,833.8	\$ 8,336.0	\$ 13,546.7
<u>Other Commercial Commitments</u>					
(Millions of dollars)	Amount of Commitment Expiration per Period				
	2003	2004 - 2005	2006 - 2007	Thereafter	Total
Lines of credit (d)	\$ 500.0	\$ 300.0	\$ -	\$ -	\$ 800.0
Standby letters of credit	79.1	239.2	-	-	318.3
Standby bond purchase agreements	96.5	124.4	-	-	220.9
Total commercial commitments	\$ 675.6	\$ 663.6	\$ -	\$ -	\$ 1,339.2

(a) There have been no significant increases to the long-term obligations during the six months ended September 30, 2002. The long-term debt matures at various dates through fiscal 2032, and bears interest principally at fixed rates of interest. The Company uses the proceeds from debt financing for general corporate purposes including construction, improvement or maintenance of its utility system and the repayment of commercial paper and short-term debt. Generally, the costs of these financings are included in the rates that the state regulatory commissions authorize.

(b) Wholly owned subsidiary trusts of the Company (the "Trusts") have issued, in public offerings, redeemable preferred securities ("Preferred Securities") representing preferred undivided beneficial interests in the assets of the Trusts, with liquidation amounts of \$25.00 per Preferred Security. The sole assets of the Trusts are Junior Subordinated Deferrable Interest Debentures ("Junior Debentures") of the Company that bear interest at the same rates as the Preferred Securities to which they relate, and certain rights under related guarantees by the Company. These Junior Debentures are unsecured and junior in terms of preference to all senior debt including unsecured senior obligations. Under certain conditions, the Company may defer interest on the Junior Debentures. Generally, the costs of these financings are included in the rates that the state regulatory commissions authorize.

(c) The Company's power contract commitments include purchases of coal, natural gas, and electricity. The Company manages its energy resource requirements by integrating long-term, short-term and spot market purchases with its own generating resources to dispatch the system economically and meet commitments for wholesale sales and retail load growth. As part of its energy resource portfolio, the Company acquires a portion of its power requirements through long-term purchases and/or exchange agreements.

(d) The Company signed new revolving credit agreements that became effective June 4, 2002; one for \$500.0 million having a 364-day term, plus a one-year term loan option, and the other for \$300.0 million having a three-year term. Provisions in the agreements are similar to the prior credit agreements. The interest on advances under these facilities is based on LIBOR plus a margin that varies based on the Company's credit ratings. As of September 30, 2002, no borrowings were outstanding under these facilities.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

BUSINESS RISK

The Company's business risks relating to Market, Regulatory/Political, Credit, Interest Rate and Insurance continue to be as reported in the Company's Annual Report on Form 10-K for the year ended March 31, 2002 under **ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**. The Company is further subject to the risks that have been or may in the future be imposed on the market from the Federal Energy Regulatory Commission (the "FERC") proceedings as mentioned under **ITEM 5. OTHER INFORMATION - WESTERN POWER MARKET ISSUES** below.

There has been a decrease in the number of counterparties in the wholesale energy markets with whom the Company has been able to transact business for purposes of servicing its regulated customers. This decline is due to an overall negative credit ratings trend in the energy industry and the concern that these counterparties may face a liquidity crisis and be unable to meet their obligations. In addition, some counterparties are focusing less of their efforts on merchant energy trading, pursuing lower risk/slower growth opportunities, strengthening their balance sheets in order to maintain or achieve an investment grade rating, exiting the marketplace entirely, or are looking to sell their energy trading divisions.

The Company continues to experience risk relating to increases in various insurance premiums and available insurance coverage for certain property and liability exposures. As a result of recent negative investment market conditions and the resultant returns that the pension trust has been experiencing on its pension plan assets, the Company is exposed to increased pension expenses and cash contributions. The Company will seek recovery of these increased costs through the normal ratemaking process.

FAIR VALUE OF DERIVATIVES

SFAS No. 133 requires all derivatives, as defined by the standard, to be marked to market, except those which qualify for specific exemption under the standard or associated DIG guidance, such as those defined as normal purchases and normal sales. The derivatives that are marked to market in accordance with SFAS No. 133 include only certain of the Company's commercial contractual arrangements as many of these arrangements are outside the scope of SFAS No. 133.

The following table shows the changes in the fair value of energy related contracts qualifying as derivatives under SFAS No. 133 from April 1, 2002 to September 30, 2002 and quantifies the reasons for the changes.

(Millions of dollars)	
Fair value of contracts outstanding at the beginning of the period	\$ (505.9)
Contracts realized or otherwise settled during the period	97.5
Changes in fair values attributable to changes in valuation assumptions	139.2
Other changes in fair values	(324.7)
Fair value of contracts outstanding at the end of the period (a)	<u>\$ (593.9)</u>

(a) The Company has also recorded \$595.2 million in net regulatory assets, as authorized by regulatory orders received, with respect to these contracts.

The forward market price curve is derived using daily market quotes from independent energy brokers, as well as, direct information received from third-party offers and actual transactions executed by the Company. For contracts extending past 2006, the forward prices are derived using a fundamentals model (cost-to-build approach) that is updated as warranted to reflect changes in the market. Short-term contracts, without explicit or embedded optionality, are valued based upon the relevant portion of the forward market price curve. Contracts with explicit or embedded optionality and long-term contracts are valued by separating each contract into its component physical and financial forward, swap and option legs. Forward and swap legs are valued against the appropriate market curve. The option leg is valued using a modified Black-Scholes model or a stochastic simulation (Monte Carlo) approach. Each leg is modeled and valued separately using the appropriate forward market price curve.

The Company also manages its exposure to price and volume risk by purchasing weather hedges. These products are designed to protect the Company from the effects of weather on its load forecast. The Company records these instruments in its financial statements at market value in accordance with EITF No. 99-2. At September 30, 2002, the net value of these instruments was an asset of \$7.4 million.

The Company's valuation models and assumptions are continuously updated to reflect current market information and an evaluation and refinement of model assumptions is performed on a periodic basis.

The following discloses summarized information with respect to valuation techniques and contractual maturities of the Company's energy-related contracts qualifying as derivatives under SFAS No. 133 as of September 30, 2002.

(Millions of dollars)	Fair Value of Contracts at Period-End				
	Maturity less than 1 year	Maturity 2-3 years	Maturity 4-5 years	Maturity in excess of 5 years	Total Fair Value
	Prices based on models and other valuation methods	<u>\$ (36.1)</u>	<u>\$ (20.4)</u>	<u>\$ (41.9)</u>	<u>\$ (495.5)</u>

ITEM 4. CONTROLS AND PROCEDURES

(a) The principal executive officer and principal financial officer of the Company have evaluated the effectiveness of the Company's disclosure controls and procedures pursuant to Rule 13a-14 under the Securities Exchange Act of 1934 as of a date within 90 days prior to the filing date of this report. Based on that evaluation, such officers have concluded that the Company's disclosure controls and procedures are effective to ensure that material information relating to the Company and its subsidiaries is made known to such officers in a timely manner for inclusion in the Company's periodic filings with the SEC.

(b) There were no significant changes in the Company's internal controls or in other factors that could significantly affect these controls subsequent to the date of their most recent evaluation by the Company's principal executive officer and principal financial officer.

PART II. OTHER INFORMATION

ITEM 5. OTHER INFORMATION

WESTERN POWER MARKET ISSUES

Effective June 19, 2001, the FERC imposed a price mitigation plan that limits prices on spot market sales in California 24 hours a day, seven days a week until September 30, 2002. Sellers have an opportunity to justify to the FERC prices above the capped limit. However, entities reselling power that was purchased are not permitted to seek prices above the capped limit.

On July 25, 2001, the FERC issued an order that extended the California price limits to all wholesale spot market sales in the entire 11-state western region. On December 19, 2001, the FERC revised the methodology used to calculate price limits for the winter season. The mitigated price for all hours until May 1, 2002, was raised to the full amount of the last calculated price cap when reserves in California fell below 7.0%. The price limit was to be increased further when the indices for natural gas prices, used to establish the mitigated price, increased by 10.0%. On May 1, 2002, the price limit calculations reverted to using the original methodology. Effective July 12, 2002, the FERC reset the price limit to \$91.87 per MWh as a hard price cap through September 30, 2002 and in September 2002 extended it to October 31, 2002. On November 1, 2002, the price cap increased to the \$250.00 per MWh level.

The FERC's June 19, 2001 order also required that "all public utility sellers and buyers in the Cal ISO's markets participate in settlement discussions to complete the task of settling past accounts and structuring the new arrangements for California's energy future." The FERC appointed an Administrative Law Judge ("ALJ") to serve as a settlement judge. On July 11, 2001, the ALJ issued a recommendation to the FERC based upon the settlement conference, proposing a methodology to calculate refund issues. The FERC agreed with the ALJ-proposed methodology. A proceeding before a second ALJ was held on August 19, 2002 to determine each party's refund liability. The Company's exposure to refunds is dependent upon any order issued by the FERC in response to the outcome of these proceedings.

The FERC has also established a second proceeding to consider the possibility of requiring refunds for wholesale sales in the Pacific Northwest between December 25, 2000 and June 20, 2001. The ALJ recommended that the FERC not require refunds for these sales. The FERC has not yet issued a decision in the Pacific Northwest refund proceeding. The Company's exposure to refunds will be dependent upon any order issued by the FERC in response to the outcome of these proceedings and cannot be determined at this time.

On May 2, 2002, the Company filed a series of complaints with the FERC against five wholesale power suppliers for charging excessive prices for wholesale electricity purchases scheduled for delivery during the summer of 2002. The contracts covered in the complaints were signed during a period of extreme wholesale market volatility and before the FERC imposed its West-wide spot market price mitigation (price caps). PacifiCorp is seeking reformation of the contract prices to levels that constitute just and reasonable rates. Hearings on this proceeding are scheduled to begin on December 10, 2002.

In May 2002, the Company responded to data requests from the FERC regarding trading practices connected with the California power crisis of 2000 and 2001. The Company confirmed that it did not engage in any trading practices intended to manipulate the market as described in the FERC's request.

REGULATION

The regulatory issues detailed in the paragraphs below represent only those issues that have changed since the Company filed its Annual Report on Form 10-K for the year ended March 31, 2002. See **ITEM 1. BUSINESS - DOMESTIC ELECTRIC OPERATIONS - REGULATION** of that report for more detailed information on all regulatory issues currently affecting the Company.

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Depreciation Filings

During 1998, the Company filed applications with the respective regulatory commissions in the states of Utah, Oregon, Wyoming and Washington to increase rates of depreciation based on a new depreciation study. All applications were approved in 2000. The increase in rates of depreciation is primarily due to revisions of the estimated costs of removal for steam production and distribution plants. For the period April 1, 2000 to March 31, 2002, the state commissions ordered a reversal of a portion of previously accrued depreciation. These reversals in total, for all states, amounted to approximately \$14.0 million per year for 2001 and 2002. On October 1, 2002, the Company filed applications with the respective regulatory commissions in the states of Utah, Oregon, Wyoming, Washington and Idaho to change the rates of depreciation based on a new depreciation study. The new study reflects depreciable plant balances at March 31, 2002 and results in a proposed decrease of \$0.7 million annually in depreciation expense. On a jurisdictional basis, the new depreciation study proposes to decrease annual depreciation expense in Oregon by \$4.4 million and increases annual depreciation expense in Utah, Wyoming, Washington and Idaho by \$3.7 million, \$1.6 million, \$0.3 million and \$0.6 million, respectively. The changes in depreciation rates are primarily due to revisions of estimated costs of removal for steam generating plants and estimated service lives and costs of removal for distribution facilities.

Trail Mountain Mine Closure Costs

On February 7, 2001, the Company filed applications with the UPSC, the OPUC, the Wyoming Public Service Commission ("WPSC") and the Idaho Public Utilities Commission ("IPUC") requesting accounting orders to defer \$27.1 million in unrecovered costs associated with its Trail Mountain coal mine. The Company ceased operations at the mine on March 7, 2001. The mine is located in Central Utah and supplied fuel to the Hunter Plant. In April 2001, the WPSC and the IPUC approved deferred accounting treatment of their state's share of the \$27.1 million of non-recovered Trail Mountain Mine investment costs. Additional closure-related costs in the amount of \$18.7 million were subsequently identified, and the total amount subject to possible deferral increased to approximately \$45.8 million. The Company filed in Utah and Oregon to include the additional costs in its deferral application and received approval to defer the full \$45.8 million for accounting purposes. In addition, the parties in Oregon signed a stipulation calling for a permanent \$1.1 million annual rate reduction in Oregon due to the removal of the Trail Mountain assets from rate base. The stipulation also provides for a \$2.6 million annual surcharge for five years to recover Oregon's share of mine closure costs. This stipulation was approved by the OPUC on May 20, 2002. On April 4, 2002, the UPSC approved deferral of Utah's share of the \$45.8 million with a five-year amortization beginning April 1, 2001. On May 7, 2002, the Company filed a general rate case in Wyoming, which seeks to recover Wyoming's share of the \$45.8 million to be recovered based on a five-year amortization period beginning April 1, 2001. This general rate case is scheduled to be decided before March 2003.

In April 2002, the Company established a regulatory asset for the full closure costs of the Trail Mountain mine with a five-year amortization period beginning April 1, 2001. The resulting regulatory asset at September 30, 2002 was \$32.5 million, net of amortization. The reestablishment of the regulatory asset increased accumulated depreciation to reverse the effects of the retirement of the mine and decreased coal inventory costs for the closure-related costs.

Merger Credits

As a result of the Merger, the Company was required to provide benefits to ratepayers through fixed reductions in rates, or "Merger Credits." The Company's total obligation for Merger Credits was \$133.4 million through the period ending December 31, 2004. The Company recorded \$12.0 million and \$57.2 million as liabilities and current expenses in its financial statements for the years ended March 31, 2001 and 2000, respectively, as those amounts were not subject to potential offsets. In May 2002, the UPSC allowed the Company to offset \$21.0 million of future Merger Credits against deferred net power costs and eliminated the obligation for future Merger Credits in Utah. On June 7, 2002, the IPUC approved a stipulation agreement that allowed the Company to offset future Merger Credits against deferred net power costs in the amount of \$2.3 million. These actions will increase monthly revenues by approximately \$1.0 million until December 31, 2003. Through September 30, 2002, the Company had provided \$58.1 million in Merger Credits and interest to its customers through reduced rates. The Company is still obligated to provide \$38.0 million of Merger Credits to customers in Oregon and Washington, with the possibility of offsetting \$21.0 million of that amount against merger savings in future years or deferred power costs.

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Concluded Regulatory Actions

Oregon - On May 20, 2002, the OPUC approved a one-year \$15.4 million overall rate increase effective June 1, 2002 for the Company's Oregon customers to cover increases in power costs. This increase included an \$18.7 million one-year surcharge related to above market costs for summer purchases. The Industrial Customers of Northwest Utilities ("ICNU") requested limited reconsideration of the portion of this order related to the lease of the West Valley, Utah generating units, amounting to \$1.2 million annually. On August 8, 2002, the OPUC ordered this reconsideration. The OPUC will soon produce a final list of issues for the reconsideration and a schedule of proceedings.

Idaho - On January 7, 2002, the Company filed a request with the IPUC to recover \$38.0 million of deferred net power costs through a temporary 24-month surcharge on customer bills and to implement a new credit to pass through Residential Exchange Program benefits from two Bonneville Power Administration ("BPA") settlement agreements. The credit would not affect Company earnings. In addition, the Company requested an adjustment of individual rate classes to more closely reflect the actual cost-of-service and proposed a rate mitigation policy to ensure that no customer class would receive a rate increase during the period in which the proposed surcharge is in effect. Parties to the proceeding agreed to a stipulation that would allow recovery of \$25.0 million of the deferred net power costs. This recovery would be achieved through a \$22.7 million power cost surcharge over two years plus termination of future Merger Credits in the amount of \$2.3 million. The IPUC approved the stipulation on June 7, 2002. On June 28, 2002, the Company filed a petition asking the IPUC to reconsider the portion of its June 7, 2002 order requiring that the Company implement a one-time refund of \$1.1 million related to procedural issues in the form of a \$20.00 per customer credit. Two individuals also filed petitions for reconsideration of several aspects of the IPUC's order approving the stipulation. On July 24, 2002, the IPUC granted the Company's petition for reconsideration, with hearings set for September 10, 2002, and denied the petitions from the two other parties. Hearings on the reconsideration were held on September 10, 2002. On October 25, 2002, the IPUC ordered the one-time refund of \$1.1 million to be reduced to \$10,000.

Rate Increases Submitted for Regulatory Approval

Wyoming - On May 7, 2002, the Company filed a general rate case seeking a permanent \$30.7 million increase in electricity rates for its Wyoming customers. If approved by the WPSC, customer rates would increase approximately 9.8%. The Company's filing also incorporated a request for all deferred net power costs, including those for which recovery was being sought in a prior withdrawn proceeding, totaling \$91.0 million. The Company currently expects an order on this request by March 2003.

California - On March 16, 2001, the Company filed an interim rate relief request with the CPUC as Phase I in an effort to seek an increase in electricity rates for its customers in California. On June 27, 2002, the CPUC approved an interim increase of \$0.01 per kilowatt hour ("kWh") for certain customers, or approximately \$4.7 million annually, or 8.8%, overall. This rate increase is subject to refund pending the outcome of the General Rate Case ("GRC"). In addition, the Company filed Phase II of a GRC to increase rates to compensatory levels on December 21, 2001. If approved by the CPUC, customer rates would increase 29.4% overall, or \$16.0 million annually, with an authorized return on equity of 11.5%. The annual amount requested would incorporate the Phase I interim amount. On December 26, 2001, the Office of Ratepayer Advocates (the "ORA") filed a motion to dismiss or defer the Company's GRC request. The Company responded to ORA's motion on January 9, 2002. Following the expiration of the protest period, on February 25, 2002, the Company filed a motion for a pre-hearing conference to identify parties of record, establish a procedural schedule and address other issues. In September 2002, the Company and the ORA began setting up a discovery process that will be used during the initial stages of this proceeding. The discovery process began in mid-October 2002.

Deferred Net Power Cost Filings

On November 1, 2000, the Company filed applications in Utah, Oregon, Wyoming and Idaho seeking deferred accounting

treatment for net power costs materially in excess of the power costs assumed in setting existing retail rates. The applications sought to defer these power cost variances beginning November 1, 2000. As discussed below, the Company received authorization to defer some power costs in excess of those included in retail rates in all the states where requests were made. At September 30, 2002, the Company had a regulatory asset, net of amortization, of \$227.1 million, including carrying charges, for total deferred net power costs.

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Utah - In Utah, pursuant to the UPSC's approval of deferred accounting treatment for replacement power costs resulting from the Hunter No. 1 outage, the Company filed on August 23, 2001 seeking permission to recover \$103.5 million in replacement power costs over a 12-month period. On November 2, 2001, the UPSC allowed the Company to apply over-collections from an earlier general rate case toward Hunter No. 1 replacement power costs on an interim basis, subject to refund. The amount of the interim relief was approximately \$29.5 million annually.

Also in Utah, on September 21, 2001, the Company filed for permission to defer \$109.0 million of net power costs above the level adopted in the UPSC's rate order of September 10, 2001. These costs were incurred during the period May 9, 2001 through September 30, 2001. A hearing relating to the deferral was held on December 7, 2001.

On May 1, 2002, the UPSC issued an order approving a stipulation agreement regarding recovery of the deferred and non-deferred net power costs referred to above. The order allowed the Company to continue collecting the \$29.5 million annual surcharge until March 31, 2004 and to apply the \$34.7 million of revenue already collected subject to refund against deferred net power costs. The order also allowed the Company to offset deferred net power costs against a regulatory liability of \$27.0 million relating to the gain from the 2001 sale of the Centralia, Washington power plant. These offsets reduced the regulatory asset for deferred net power costs. In addition, the UPSC allowed the elimination of \$20.0 million for the final two years of Merger Credits associated with the merger of ScottishPower and PacifiCorp. Monthly revenues will increase approximately \$1.0 million until December 31, 2003 due to the termination of Merger Credits. The Company has recorded additional deferred net power costs of \$17.9 million, has withdrawn its request to defer \$109.0 million of deferred net power costs and has committed not to file a general rate case with a rate effective date prior to January 1, 2004, with certain exceptions. This order should allow the Company to recover a total of \$147.0 million of deferred net power costs in Utah by March 31, 2004. A party that opposed the stipulation has filed a petition with the Utah Supreme Court for review of the order approving the stipulation.

Oregon - The Oregon deferred accounting filing encompassed all power costs that vary from the level in Oregon rates during the period from November 1, 2000 through September 9, 2001, including costs to replace lost generation resulting from the Hunter No. 1 outage. On January 18, 2001, the Company requested a 3.0%, or \$22.8 million, annual rate increase effective February 1, 2001, to provide partial recovery of post-October 31, 2000 power cost variances attributable to Oregon over an amortization period. This 3.0% rate increase was the maximum allowed on an annual basis for the recovery of deferred costs under the Oregon statutes. On January 23, 2001, the OPUC authorized deferred accounting for power costs of \$22.8 million. On February 20, 2001, the OPUC authorized the 3.0% rate increase effective February 21, 2001, subject to refund, pending the outcome of a separate phase of the proceeding to examine the prudence of these expenditures. At September 30, 2002, the Company had received \$39.9 million in collections as a result of this OPUC action.

The Company filed with the OPUC on September 21, 2001 to increase the level of recovery of deferred net power costs incurred to serve Oregon customers from the current 3.0% amortization level, or \$22.8 million awarded in February 2001, to 6.0%, the maximum allowed on an annual basis for recovery of deferred costs under a recent change in Oregon law. On October 22, 2001, the OPUC suspended the Company's request pending the outcome of the prudence phase of the proceeding.

In December 2001, the Company and the OPUC staff reached a stipulation in the prudence phase of its deferred net power cost proceeding. The stipulation provided that the Company would be permitted to recover 85.0% of the deferred net power costs in Oregon, or about \$136.5 million, including \$5.5 million of carrying charges. The stipulation allowed the Company to seek increased recovery in the event the Company's appeal of the Commission's order limiting deferrals is successful. On July 18, 2002, the OPUC issued an order approving the stipulation and ending the prudence phase of the proceeding. On September 16, 2002, the Citizens' Utility Board (the "CUB") and the Industrial Customers of Northwest Utilities (the "ICNU") appealed this decision to the Marion County, Oregon Circuit Court. On October 11, 2002, the Company moved to intervene in this complaint.

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On August 6, 2002, the OPUC allowed the Company to increase the amortization level from 3.0% to 6.0%. The new rates were effective August 8, 2002. On August 19, 2002, the CUB and the ICNU filed a complaint with the OPUC, requesting that the OPUC require the Company to discontinue amortization of the additional 3.0%, as it had not been authorized. On October 10, 2002, the Company filed a stipulation and tariff to allow the OPUC to reopen consideration of the increase in amortization of the deferred power costs from 3.0% to 6.0%. Subject to regulatory approval, the Company and CUB have reached a stipulation

agreement, supported by the OPUC staff, that the amortization level will remain at 6.0% and that the amounts amortized after the OPUC implements the tariff will be subject to refund. The refund will occur if, an order or ruling is issued declaring all or a portion of these deferred costs imprudent. On October 14, 2002, the ICNU filed a response to the Company's motion to the stipulation and proposed tariff. Their response asked that the motion be denied as being procedurally improper.

While the 6.0% increase establishes the maximum annual rate to be recovered, the Company continued to pursue the total amount to be recovered through its October 1, 2001 appeals, to the Marion County, Oregon, Circuit Court, of two OPUC orders. These orders established the mechanism to determine the amount of power costs to defer. The appeals were consolidated. On June 5, 2002, the Marion County, Oregon, Circuit Court upheld the OPUC decision. On October 9, 2002, the Company appealed this decision to the Oregon Court of Appeals.

On September 7, 2001, the OPUC endorsed an agreement on deferral of net power costs after September 2001. From September 10, 2001 until May 31, 2002, the Company deferred the difference between 83.0% of actual net power costs and the new Oregon baseline power cost in tariffs. This mechanism was terminated on May 31, 2002 concurrent with the effective date of the settlement approved on May 20, 2002.

Wyoming - In Wyoming, on November 1, 2000, the Company filed for deferred accounting treatment of net power costs that vary from costs included in determining retail rates. The Company proposed to recover \$47.0 million of deferred net power costs, incurred through June 2001, over a 12-month period. On November 20, 2001, following an order by the WPSC dismissing the majority of the Company's case based on a procedural issue, the Company requested authority to withdraw its deferred net power cost recovery filing without prejudice. On November 26, 2001, the WPSC granted the Company's motion. On May 7, 2002, the Company filed a Wyoming general rate case that includes a consolidation of all deferred net power costs, including those for which recovery was being sought in the withdrawn proceeding, totaling \$91.0 million. The Company currently expects an order on this request by March 2003.

Washington - On April 5, 2002, the Company filed a petition with the WUTC seeking authority to begin deferring net power costs in excess of those included in rates as of June 1, 2002 for later recovery in rates, either through a power cost adjustment mechanism or a limited rate adjustment. Under the rate plan approved by the WUTC in August 2000 at the conclusion of the Company's last general rate case in Washington, there are limitations on the Company's ability to raise general rates prior to 2006. On May 10, 2002, the other parties to the rate plan filed a motion with the WUTC seeking to reopen the Company's 2000 general rate case and consolidate it with the Company's request for deferred accounting. In an order issued on July 12, 2002, the WUTC granted the motion to consolidate, and scheduled a preliminary conference in the proceeding for August 2002. On October 18, 2002, the Company filed testimony and supporting documents, requesting recovery of \$17.5 million of excess power costs, including carrying charges. A final decision is expected by March 2003.

Regional Transmission Organization ("RTO")

The Company, in conjunction with nine other utilities, is seeking to form an RTO ("RTO West"), in response to FERC Order 2000. The 10 members of RTO West at this time would be Avista Corporation, British Columbia Hydro Power Authority, BPA, Idaho Power Company, Northwestern Energy L.L.C. (formerly Montana Power Company), Nevada Power Company, PacifiCorp, Portland General Electric Company, Puget Sound Energy, Inc. and Sierra Pacific Power Company. Creation of RTO West is subject to regulatory approval from the FERC. Some of the states served by these utilities may also assert jurisdiction over certain matters relating to the formation of RTO West. RTO West, when fully implemented, will operate all transmission facilities needed for bulk power transfers and control the majority of the 60,000 miles of transmission lines owned by the entities.

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On July 31, 2002, the FERC issued its Notice of Proposed Rulemaking ("NOPR"), proposing a new Standard Market Design ("SMD") for wholesale electricity markets and requesting comments from market participants. Comments are due in mid-November 2002 or mid-January 2003, depending on the subject.

On September 18, 2002, the FERC voted that, with some modification and further development of certain details, the RTO West proposal not only satisfies the 12 characteristics and functions of FERC Order 2000, but also provides a basic framework for a standard market design for the region. Going forward, the focus of the RTO project will be on completing the RTO West design details, thereby influencing the final SMD Western market design framework. The entities plan to submit a proposed RTO West tariff in early 2003. In addition, the representatives are working to approve and file a Memorandum of Understanding regarding interconnection operations (seams) with the other two potential Western RTO's, WestConnect and the California Independent Grid Operator.

Multi-State Process ("MSP")

The Company continues its active engagement in a collaborative process with the six states it serves to develop mutually acceptable solutions to the problems faced by the Company and the states resulting from the Company's multi-state operations. These problems pertain to the allocation of the cost of the Company's existing investment and the recovery of the cost of future investments. This MSP is a process by which solutions, including the Company's Structural Realignment Proposal ("SRP"), are being developed and reviewed by interested parties from across the Company's service territory. Through MSP, the participants

are working to clarify roles and responsibilities, including cost allocations for future generation resources, provide states with the ability to independently implement state energy policy objectives, and achieve permanent consensus on each state's responsibility for the costs and entitlement to the benefits of the Company's existing assets.

The SRP plan proposed by the Company would change the Company's legal and regulatory structure and result in the creation of six state electric distribution companies, a generation company that also holds transmission assets, and a service company, which are all intended to be subsidiaries of the holding company. Individual state proceedings and schedules for SRP are "on hold" so long as reasonable progress is made through the MSP. Any proposal that results from the MSP, is subject to approval by the utility commissions in Utah, Oregon, Wyoming, Washington, Idaho and California. Approval from the FERC may also be required.

Integrated Resource Plan

The Company is developing an Integrated Resource Plan ("IRP") to provide a framework and plan for the prudent future actions required to ensure that the Company continues to provide reliable and low-cost electric service to its customers. The IRP selects the optimal solution from a mix of renewable, fossil fuel, market purchase and demand side management choices. Any new generation or other asset called for by the IRP is expected to be included in the Company's future rate base. The IRP is expected to be filed with state commissions by December 2002. On August 6, 2002, the OPUC opened a rulemaking to consider changes to its IRP planning process.

PROPOSED ASSET DISPOSITION

California Service Territory

In July 1998, the Company announced its intention to sell its California service territory, including its electric distribution assets. The Company and Nor-Cal Electric Authority ("Nor-Cal") have engaged in detailed negotiations with a view towards executing a definitive sale agreement. Various factors have impeded consummation of the sale transaction. Most recently, in June 2002, the California county of Siskiyou filed a validation action in California Superior Court, challenging the authority of Nor-Cal to enter into such a transaction as proposed, and alleging certain conflicts of interest among Nor-Cal and its advisors. Based on the foregoing factors, consummation of the sale is uncertain.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits.

- 12.1 Statements of Computation of Ratio of Earnings to Fixed Charges
- 12.2 Statements of Computation of Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends
- 15 Letter regarding unaudited interim financial information
- 99.1 Principal Executive Officer Certification Pursuant to Sarbanes-Oxley Act of 2002, Section 906
- 99.2 Principal Financial Officer Certification Pursuant to Sarbanes-Oxley Act of 2002, Section 906

(b) Reports on Form 8-K.

On Form 8-K, dated July 19, 2002, under Item 5. Other Events, the Company filed a news release reporting that the Oregon Public Utility Commission issued an order allowing the Company to recover \$136.5 million, including \$5.5 million of carrying charges, of deferred net power costs in Oregon related to the western power

crisis in 2000/2001.

On Form 8-K, dated August 9, 2002, under Item 9. Regulation FD Disclosure, the Company submitted to the SEC, statements pursuant to 18 U.S.C. Section 1350 as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002.

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SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

PACIFICORP

Date November 5, 2002

By /s/ RON L. LOWDER
Ron L. Lowder
Chief Accounting Officer

CERTIFICATIONS

I, Judith A. Johansen, principal executive officer of PacifiCorp, certify that:

- 1) I have reviewed this quarterly report on Form 10-Q of PacifiCorp;
- 2) Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
- 3) Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
- 4) The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
 - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
 - c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
- 5) The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
 - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
- 6) The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

/s/ Judith A. Johansen
Judith A. Johansen
President and Chief Executive Officer, PacifiCorp

November 5, 2002

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CERTIFICATIONS

I, Richard Peach, principal financial officer of PacifiCorp, certify that:

- 1) I have reviewed this quarterly report on Form 10-Q of PacifiCorp;
- 2) Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
- 3) Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
- 4) The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
 - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
 - c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
- 5) The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
 - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
- 6) The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

/s/ Richard Peach

Richard Peach

As Principal Financial Officer, PacifiCorp

November 5, 2002

(Millions of dollars)	Total Company	Domestic Electric Operations	Australian Electric Operations	Discontinued Operations	Other Operations & Eliminations
For the three months ended:					
September 30, 2002					
Net external revenues	\$ 944.1	\$ 944.1	\$ -	\$ -	\$ -
Income from continuing operations	31.5	31.5	-	-	-
September 30, 2001					
Net external revenues	\$ 1,244.2	\$ 1,241.8	\$ -	\$ -	\$ 2.4
Loss from continuing operations	(30.2)	(24.7)	-	-	(5.5)
For the six months ended:					
September 30, 2002					
Net external revenues	\$ 1,833.9	\$ 1,833.9	\$ -	\$ -	\$ -
Income from continuing operations	69.0	69.0	-	-	-
Loss from cumulative effect of accounting change	(1.9)	(1.9)	-	-	-
September 30, 2001					
Net external revenues	\$ 2,525.8	\$ 2,515.9	\$ -	\$ -	\$ 9.9
Income from continuing operations	134.1	101.5	27.4 (a)	-	5.2
Income from discontinued operations	146.7	-	-	146.7 (b)	-
Loss from cumulative effect of accounting change	(112.8)	(112.8)	-	-	-

(Millions of dollars)	Three Months Ended September 30,		\$ Change	% Change
	2002	2001	Favorable/(Unfavorable)	
Earnings (loss) contribution on common stock: (a)				
Domestic Electric Operations	\$ 29.7	\$ (29.1)	\$ 58.8	202.1 %
Other Operations (b)	-	(5.5)	5.5	100.0
Total	<u>\$ 29.7</u>	<u>\$ (34.6)</u>	<u>\$ 64.3</u>	185.8

<u>REVENUES</u>				
(Millions of dollars)	Three Months Ended		\$ Change	% Change
	September 30,			
	2002	2001	Favorable/(Unfavorable)	
Domestic Electric Operations				
Residential	\$ 225.9	\$ 208.5	\$ 17.4	8.3 %
Commercial	200.4	191.3	9.1	4.8
Industrial	199.4	196.8	2.6	1.3
Other retail revenues	8.3	9.5	(1.2)	(12.6)
Retail sales	634.0	606.1	27.9	4.6
Wholesale sales	260.1	587.9	(327.8)	(55.8)
Other revenues	50.0	47.8	2.2	4.6
Total	944.1	1,241.8	(297.7)	(24.0)
Other operations	-	2.4	(2.4)	(100.0)
Total Revenues	\$ 944.1	\$ 1,244.2	\$ (300.1)	(24.1)
Energy sales (Millions of kWh)				
Residential	3,192	3,119	73	2.3
Commercial	3,729	3,703	26	0.7
Industrial	5,109	5,323	(214)	(4.0)
Other	177	204	(27)	(13.2)
Retail sales	12,207	12,349	(142)	(1.1)
Wholesale sales	7,464	6,434	1,030	16.0
Total	19,671	18,783	888	4.7
Average residential usage (kWh)	2,455	2,429	26	1.1
Total retail customers - end of period (In thousands)	1,526	1,506	20	1.3

OPERATING EXPENSES

(Millions of dollars)

	Three Months Ended		\$ Change	% Change
	September 30,			
	2002	2001	Favorable/(Unfavorable)	
Domestic Electric Operations				
Purchased power	\$ 358.7	\$ 768.4	\$ 409.7	53.3 %
Fuel	133.2	128.6	(4.6)	(3.6)
Other operations and maintenance	128.8	132.9	4.1	3.1
Depreciation and amortization	108.5	99.5	(9.0)	(9.0)
Administrative and general	62.7	59.0	(3.7)	(6.3)
Taxes, other than income taxes	25.3	19.0	(6.3)	(33.2)
Unrealized (gain) loss on SFAS No. 133 - derivative instruments	(5.3)	28.1	33.4	118.9
Total	811.9	1,235.5	423.6	34.3
Other Operations	-	3.2	3.2	100.0
Total operating expenses	\$ 811.9	\$ 1,238.7	\$ 426.8	34.5

<u>INTEREST EXPENSE AND OTHER (INCOME) EXPENSE</u>					
(Millions of dollars)	<u>Three Months Ended September 30,</u>		<u>\$ Change</u>	<u>% Change</u>	
	<u>2002</u>	<u>2001</u>	<u>Favorable/(Unfavorable)</u>		
Interest expense	\$ 80.6	\$ 52.4	\$ (28.2)	(53.8)	%
Interest income	(2.9)	(6.5)	(3.6)	(55.4)	
Interest capitalized	(4.4)	(2.1)	2.3	109.5	
Minority interest and other (a)	5.7	(5.1)	(10.8)	(211.8)	
Total	<u>\$ 79.0</u>	<u>\$ 38.7</u>	<u>\$ (40.3)</u>	(104.1)	

(Millions of dollars)	Six Months Ended September 30,		\$ Change	% Change
	2002	2001	Favorable/(Unfavorable)	
Earnings contribution on common stock: (a)				
Domestic Electric Operations	\$ 65.3	\$ 92.7	\$ (27.4)	(29.6) %
Australian Electric Operations	-	27.4	(27.4)	(100.0)
Other Operations (b)	-	5.2	(5.2)	(100.0)
Continuing operations	65.3	125.3	(60.0)	(47.9)
Discontinued operations (c)	-	146.7	(146.7)	(100.0)
Cumulative effect of accounting change (d)	(1.9)	(112.8)	110.9	98.3
Total	\$ 63.4	\$ 159.2	\$ (95.8)	(60.2)

REVENUES

(Millions of dollars)

	Six Months Ended September 30,		\$ Change	% Change
	2002	2001		
Domestic Electric Operations				
Residential	\$ 431.0	\$ 397.2	\$ 33.8	8.5 %
Commercial	386.5	375.2	11.3	3.0
Industrial	366.3	384.3	(18.0)	(4.7)
Other retail revenues	16.6	18.1	(1.5)	(8.3)
Retail sales	1,200.4	1,174.8	25.6	2.2
Wholesale sales	553.6	1,244.5	(690.9)	(55.5)
Other revenues	79.9	96.6	(16.7)	(17.3)
Total	1,833.9	2,515.9	(682.0)	(27.1)
Other operations	-	9.9	(9.9)	(100.0)
Total Revenues	\$ 1,833.9	\$ 2,525.8	\$ (691.9)	(27.4)
Energy sales (Millions of kWh)				
Residential	6,131	5,959	172	2.9
Commercial	7,109	7,046	63	0.9
Industrial	9,718	10,420	(702)	(6.7)
Other	352	378	(26)	(6.9)
Retail sales	23,310	23,803	(493)	(2.1)
Wholesale sales	17,529	11,524	6,005	52.1
Total	40,839	35,327	5,512	15.6
Average residential usage (kWh)	4,722	4,650	72	1.5
Total retail customers - end of period (In thousands)	1,526	1,506	20	1.3

OPERATING EXPENSES

(Millions of dollars)	Six Months Ended		\$ Change	% Change
	September 30,			
	2002	2001	Favorable/(Unfavorable)	
Domestic Electric Operations				
Purchased power	\$ 675.2	\$ 1,503.4	\$ 828.2	55.1 %
Fuel	230.5	245.7	15.2	6.2
Other operations and maintenance	270.5	282.0	11.5	4.1
Depreciation and amortization	214.9	198.2	(16.7)	(8.4)
Administrative and general	142.7	116.3	(26.4)	(22.7)
Taxes, other than income taxes	48.1	43.2	(4.9)	(11.3)
Unrealized gain on SFAS No. 133 - derivative instruments	(3.1)	(150.0)	(146.9)	(97.9)
Total	1,578.8	2,238.8	660.0	29.5
Other Operations	-	7.2	7.2	100.0
Total operating expenses	\$ 1,578.8	\$ 2,246.0	\$ 667.2	29.7

INTEREST EXPENSE AND OTHER (INCOME) EXPENSE

(Millions of dollars)	Six Months Ended September 30,		\$ Change	% Change
	2002	2001	Favorable/(Unfavorable)	
Interest expense	\$ 1446	\$ 107.4	\$ (37.2)	(34.6) %
Interest income	(5.0)	(14.7)	(9.7)	(66.0)
Interest capitalized	(9.9)	(4.4)	5.5	125.0
Minority interest and other (a)	15.1	(13.3)	(28.4)	(213.5)
Total	<u>\$ 1448</u>	<u>\$ 75.0</u>	<u>\$ (69.8)</u>	<u>(93.1)</u>

	<u>Moody's</u>	<u>S & P</u>
Senior secured debt	A3	A
Senior unsecured debt	Baa1	BBB+
Preferred stock	Baa3	BBB
Commercial paper	P-2	A-2

(Millions of dollars)	Six Months Ended September 30,	
	2002	2001
Cash flows from operating activities		
Net income	\$ 67.1	\$ 168.0
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Gain on disposal of discontinued operations	-	(146.7)
Cumulative effect of accounting change	1.9	112.8
Unrealized gain on SFAS No. 133 - derivative instruments	(3.1)	(150.0)
Depreciation and amortization	214.9	199.9
Deferred income taxes and investment tax credits - net	(12.8)	73.3
Gain on sale of assets	(1.2)	(36.2)
Deferred net power costs	(23.2)	(184.5)
Changes in other regulatory assets/liabilities	71.8	26.1
Accounts receivable and prepayments	5.9	12.0
Accounts payable and accrued liabilities	(113.0)	(159.5)
Other	(8.2)	(7.0)
Net cash provided by (used in) operating activities	200.1	(91.8)
Cash flows from investing activities		
Construction	(253.1)	(208.6)
Changes in debt due affiliates	-	(123.5)
Advances to ScottishPower	-	400.0
Proceeds from ScottishPower note receivable	-	(27.4)
Proceeds from finance note repayment	-	189.9
Proceeds from sales of assets	9.8	28.1
Proceeds from sales of finance assets and principal payments	-	38.9
Proceeds from available for sale securities	74.6	56.3
Purchases of available for sale securities	(75.1)	(59.7)
Other	2.7	2.3
Net cash (used in) provided by investing activities	(241.1)	296.3
Cash flows from financing activities		
Changes in short-term debt	76.5	(44.8)
Dividends paid	(3.8)	(7.8)
Repayments of long-term debt	(130.4)	(47.1)
Redemptions of preferred stock	(7.5)	(100.0)
Other	-	(1.3)
Net cash used in financing activities	(65.2)	(201.0)
(Decrease) increase in cash and cash equivalents	(106.2)	3.5
Cash and cash equivalents at beginning of period	157.9	139.4
Cash and cash equivalents at end of period	\$ 51.7	\$ 142.9

<u>Contractual Obligations</u>					
(Millions of dollars)	Payments Due by Period				
	2003	2004 - 2005	2006 - 2007	Thereafter	Total
Short-term debt, including interest	\$ 254.0	\$ -	\$ -	\$ -	\$ 254.0
Long-term debt, including interest (a)	312.4	844.1	804.5	4,118.6	6,079.6
Capital lease minimum payments	3.3	6.9	7.2	54.0	71.4
Junior subordinated debentures (b)	28.3	56.6	56.6	1,178.5	1,320.0
Preferred stock	3.8	7.5	56.3	-	67.6
Power contract commitments (c)	703.3	1,100.2	903.9	2,972.8	5,680.2
Operating leases	20.9	35.6	5.3	12.1	73.9
Total contractual cash obligations	<u>\$ 1,326.0</u>	<u>\$ 2,050.9</u>	<u>\$ 1,833.8</u>	<u>\$ 8,336.0</u>	<u>\$ 13,546.7</u>
<u>Other Commercial Commitments</u>					
(Millions of dollars)	Amount of Commitment Expiration per Period				
	2003	2004 - 2005	2006 - 2007	Thereafter	Total
Lines of credit (d)	\$ 500.0	\$ 300.0	\$ -	\$ -	\$ 800.0
Standby letters of credit	79.1	239.2	-	-	318.3
Standby bond purchase agreements	96.5	124.4	-	-	220.9
Total commercial commitments	<u>\$ 675.6</u>	<u>\$ 663.6</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,339.2</u>

(Millions of dollars)

Fair value of contracts outstanding at the beginning of the period	\$ (505.9)
Contracts realized or otherwise settled during the period	97.5
Changes in fair values attributable to changes in valuation assumptions	139.2
Other changes in fair values	<u>(324.7)</u>
Fair value of contracts outstanding at the end of the period (a)	<u>\$ (593.9)</u>

(Millions of dollars)	Fair Value of Contracts at Period-End				Total Fair Value
	Maturity less than 1 year	Maturity 2-3 years	Maturity 4-5 years	Maturity in excess of 5 years	
Prices based on models and other valuation methods	\$ (36.1)	\$ (20.4)	\$ (41.9)	\$ (495.5)	\$ (593.9)

(Millions of dollars)	September 30, 2002	March 31, 2002
ASSETS	(Unaudited)	
Current assets		
Cash and cash equivalents	\$ 51.7	\$ 157.9
Accounts receivable less allowance for doubtful accounts: \$32.4/September 2002 and \$34.8/March 2002	246.8	249.1
Unbilled revenue	124.9	127.0
Inventories at average cost		
Materials and supplies	96.1	93.5
Fuel	60.1	59.9
SFAS No. 133 current assets	67.6	51.3
Other	20.8	21.5
Total current assets	<u>668.0</u>	<u>760.2</u>
Property, plant and equipment	13,297.4	13,098.9
Accumulated depreciation and amortization	<u>(5,322.3)</u>	<u>(5,129.4)</u>
Total property, plant and equipment - net	<u>7,975.1</u>	<u>7,969.5</u>
Other assets		
Regulatory assets	1,066.1	1,158.3
SFAS No. 133 regulatory asset	595.2	468.4
SFAS No. 133 non-current assets	104.6	155.0
Deferred charges and other	348.1	366.2
Total other assets	<u>2,114.0</u>	<u>2,147.9</u>
Total assets	<u>\$ 10,757.1</u>	<u>\$ 10,877.6</u>

(Millions of dollars)	September 30, 2002	March 31, 2002
LIABILITIES, REDEEMABLE PREFERRED STOCK AND SHAREHOLDERS' EQUITY	(Unaudited)	
Current liabilities		
Long-term debt currently maturing	\$ 96.7	\$ 144.5
Notes payable and commercial paper	253.9	177.5
Accounts payable	318.0	384.5
Taxes payable	115.5	115.9
Interest payable	68.2	100.8
SFAS No. 133 current liability	103.7	151.7
Other	133.9	142.0
Total current liabilities	<u>1,089.9</u>	<u>1,216.9</u>
Deferred credits		
Income taxes	1,441.9	1,434.8
Investment tax credits	99.3	99.3
Regulatory liabilities	145.4	219.7
SFAS No. 133 non-current liability	662.4	560.5
Other	419.7	443.7
Total deferred credits	<u>2,768.7</u>	<u>2,758.0</u>
Long-term debt, net of current maturities	3,471.5	3,553.8
Commitments and contingencies (See Note 7)		
Guaranteed preferred beneficial interests in Company's junior subordinated debentures	341.7	341.5
Preferred stock subject to mandatory redemption	66.7	74.2
Redeemable preferred stock	<u>41.3</u>	<u>41.3</u>
Common equity		
Common shareholder's capital	2,742.1	2,742.1
Retained earnings	236.5	173.1
Accumulated other comprehensive income (loss):		
Unrealized (loss) gain on available for sale securities, net of tax of \$1.1/September 2002 and \$0.6/March 2002	(1.3)	0.7
Unrealized loss on derivative financial instruments, net of tax of \$14.7/March 2002	-	(24.0)
Total common equity	<u>2,977.3</u>	<u>2,891.9</u>
Total liabilities, redeemable preferred stock and shareholders' equity	<u>\$ 10,757.1</u>	<u>\$ 10,877.6</u>

(Millions of dollars)	Net Asset (Liability)	Regulatory Net Asset (Liability)	Deferred Tax Asset (Liability)	Accumulated Income (Loss)	Other Comprehensive Income (Loss)
Balance at March 31, 2002	\$ (505.9)	\$ 468.4	\$ 14.2	\$ 0.7	\$ (24.0)
Cumulative effect of accounting change	(3.0)	-	1.1	(1.9)	-
Settlements	97.5	(59.1)	(14.5)	(0.1)	24.0
Change in fair value	(182.5)	185.9	(1.4)	1.9	-
Balance at September 30, 2002	<u>\$ (593.9)</u>	<u>\$ 595.2</u>	<u>\$ (0.6)</u>	<u>\$ 0.6</u>	<u>\$ -</u>

(Millions of dollars)	September 30, 2002	March 31, 2002
Amounts due from affiliated entities:		
ScottishPower (a)	\$ -	\$ 0.5
PHI subsidiaries (b)	0.8	3.5
	<u>\$ 0.8</u>	<u>\$ 4.0</u>
Amounts due to affiliated entities:		
ScottishPower (c)	\$ 2.5	\$ 0.8
PHI subsidiaries (d)	14.0	1.0
	<u>\$ 16.5</u>	<u>\$ 1.8</u>

(Millions of dollars)	Three Months Ended September 30,		Six Months Ended September 30,	
	2002	2001	2002	2001
Revenues from affiliated entities:				
PHI subsidiaries (e)	\$ 1.4	\$ -	\$ 2.5	\$ -
Expenses incurred from affiliated entities:				
ScottishPower (c)	\$ 2.6	\$ 5.7	\$ 4.9	\$ 7.7
PHI subsidiaries (f)	3.5	-	4.1	-
	\$ 6.1	\$ 5.7	\$ 9.0	\$ 7.7
Expenses recharged to affiliated entities:				
ScottishPower (a)	\$ 0.1	\$ 4.4	\$ 0.3	\$ 4.4
Interest income from affiliated entities:				
ScottishPower (g)	\$ -	\$ 1.8	\$ -	\$ 5.7
PHI subsidiaries (b)	-	2.5	-	4.9
Total affiliated interest income	\$ -	\$ 4.3	\$ -	\$ 10.6

(Millions of dollars)	Six Months Ended September 30,	
	2002	2001
Computed federal income taxes	\$ 38.6	\$ 81.3
Increase (reduction) in taxes resulting from:		
Depreciation differences	8.3	9.8
Depletion	(0.5)	(1.2)
Investment tax credits	(3.1)	(6.3)
ESOP Dividend pass through	(1.2)	-
Sale of Australian Electric Operations (a)	-	(10.0)
Tax reserves (b)	-	20.9
All other	(4.2)	(3.1)
Total	(0.7)	10.1
Federal income tax	37.9	91.4
State income tax, net of federal income tax benefit	3.4	6.7
Income tax expense on income from continuing operations before cumulative effect of accounting change	\$ 41.3	\$ 98.1

PACIFICORP
STATEMENTS OF COMPUTATION OF RATIO
OF EARNINGS TO FIXED CHARGES
(IN MILLIONS OF DOLLARS)

	<u>6 months</u>		<u>Years ended March 31,</u>		<u>Years ended</u>
	<u>Sept. 30, 2002</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1998</u>
Fixed Charges, as defined:*					
Interest expense	\$ 144.6	\$ 228.1	\$ 290.4	\$ 341.4	\$ 371.6
Estimated interest portion of rentals charged to expense	2.7	10.2	2.9	5.2	5.7
Preferred dividends of wholly owned subsidiary *	22.6	45.3	(29.6)	74.0	42.9
Total fixed charges	<u>\$ 169.9</u>	<u>\$ 283.6</u>	<u>\$ 263.7</u>	<u>\$ 420.6</u>	<u>\$ 420.2</u>
Earnings, as defined:*					
Income from continuing operations	\$ 69.0	\$ 293.4	\$ (88.2)	\$ 82.6	\$ 110.6
Add (deduct):					
Provision for income taxes	41.3	176.1	180.4	134.0	59.1
Minority interest	-	0.1	0.1	0.1	(0.7)
Undistributed loss (income) of less than 50% owned affiliates	-	-	1.4	2.6	10.3
Fixed charges as above	169.9	283.6	263.7	420.6	420.2
Total earnings	<u>\$ 280.2</u>	<u>\$ 753.2</u>	<u>\$ 357.4</u>	<u>\$ 639.9</u>	<u>\$ 599.5</u>
Ratio of Earnings to Fixed Charges	<u>1.6 x</u>	<u>2.7 x</u>	<u>1.4 x</u>	<u>1.5 x</u>	<u>1.4 x</u>

* "Fixed charges" represent consolidated interest charges, an estimated amount representing the interest factor in rents and preferred dividend requirements of majority-owned subsidiaries. "Preferred dividends of wholly owned subsidiary" represents preferred dividend by the ratio which pre-tax income from continuing operations bears to income from continuing operations. "Earnings" represent the (a) income from continuing operations, (b) taxes based on income from continuing operations, (c) minority interest in the income of subsidiaries that have fixed charges, (d) fixed charges and (e) undistributed income of less than 50% owned affiliates without loan

PACIFICORP
STATEMENTS OF COMPUTATION OF RATIO
OF EARNINGS TO COMBINED FIXED CHARGES AND PREFERRED STOCK DIVIDENDS
(IN MILLIONS OF DOLLARS)

	<u>6 months</u>		<u>Years ended March 31,</u>		<u>Years ended</u>
	<u>Sept. 30, 2002</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1998</u>
Fixed Charges, as defined:*					
Interest expense	\$ 144.6	\$ 228.1	\$ 290.4	\$ 341.4	\$ 371.6
Estimated interest portion of rentals charged to expense	2.7	10.2	2.9	5.2	5.7
Preferred dividends of wholly owned subsidiary	22.6	45.3	(29.6)	74.0	42.9
Total fixed charges	169.9	283.6	263.7	420.6	420.2
Preferred Stock Dividends as defined:*	5.9	20.3	(18.8)	49.6	29.5
Total fixed charges and preferred dividends	<u>\$ 175.8</u>	<u>\$ 303.9</u>	<u>\$ 244.9</u>	<u>\$ 470.2</u>	<u>\$ 449.7</u>
Earnings, as defined:*					
Income from continuing operations	\$ 69.0	\$ 293.4	\$ (88.2)	\$ 82.6	\$ 110.6
Add (deduct):					
Provision for income taxes	41.3	176.1	180.4	134.0	59.1
Minority interest	-	0.1	0.1	0.1	(0.7)
Undistributed loss (income) of less than 50% owned affiliates	-	-	1.4	2.6	10.3
Fixed charges as above	169.9	283.6	263.7	420.6	420.2
Total earnings	<u>\$ 280.2</u>	<u>\$ 753.2</u>	<u>\$ 357.4</u>	<u>\$ 639.9</u>	<u>\$ 599.5</u>
Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends	<u>1.6 x</u>	<u>2.5 x</u>	<u>1.5 x</u>	<u>1.4 x</u>	<u>1.3 x</u>

* "Fixed charges" represent consolidated interest charges and an estimated amount representing the interest factor in rents. "Preferred Dividends" represent preferred dividend requirements multiplied by the ratio which pre-tax income from continuing operations bears to fixed charges from continuing operations. "Earnings" represent the aggregate of (a) income from continuing operations, (b) taxes based on income from continuing operations, (c) minority interest in the income of majority-owned subsidiaries that have fixed charges, (d) fixed charges and (e) undistributed income of less than 50% owned affiliates without loan guarantees.

EXHIBIT 12.1

PACIFICORP
STATEMENTS OF COMPUTATION OF RATIO
OF EARNINGS TO FIXED CHARGES
(IN MILLIONS OF DOLLARS)

	<u>6 months</u>		<u>Years ended March 31,</u>		<u>Years ended December 31,</u>	
	<u>Sept. 30, 2002</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1998</u>	<u>1997</u>
Fixed Charges, as defined:*						
Interest expense	\$ 144.6	\$ 228.1	\$ 290.4	\$ 341.4	\$ 371.6	\$ 438.1
Estimated interest portion of rentals charged to expense	2.7	10.2	2.9	5.2	5.7	6.6
Preferred dividends of wholly owned subsidiary *	22.6	45.3	(29.6)	74.0	42.9	32.9
Total fixed charges	\$ 169.9	\$ 283.6	\$ 263.7	\$ 420.6	\$ 420.2	\$ 477.6
Earnings, as defined:*						
Income from continuing operations	\$ 69.0	\$ 293.4	\$ (88.2)	\$ 82.6	\$ 110.6	\$ 232.9
Add (deduct):						
Provision for income taxes	41.3	176.1	180.4	134.0	59.1	111.8
Minority interest	-	0.1	0.1	0.1	(0.7)	1.9
Undistributed loss (income) of less than 50% owned affiliates	-	-	1.4	2.6	10.3	(11.1)
Fixed charges as above	169.9	283.6	263.7	420.6	420.2	477.6
Total earnings	\$ 280.2	\$ 753.2	\$ 357.4	\$ 639.9	\$ 599.5	\$ 813.1
Ratio of Earnings to Fixed Charges	1.6x	2.7x	1.4x	1.5x	1.4x	1.7x

* "Fixed charges" represent consolidated interest charges, an estimated amount representing the interest factor in rents and preferred stock dividend requirements of majority-owned subsidiaries. "Preferred dividends of wholly owned subsidiary" represents preferred dividends multiplied by the ratio which pre-tax income from continuing operations bears to income from continuing operations. "Earnings" represent the aggregate of (a) income from continuing operations, (b) taxes based on income from continuing operations, (c) minority interest in the income of majority-owned subsidiaries that have fixed charges, (d) fixed charges and (e) undistributed income of less than 50% owned affiliates without loan guarantees.

EXHIBIT 12.2

PACIFICORP
STATEMENTS OF COMPUTATION OF RATIO
OF EARNINGS TO COMBINED FIXED CHARGES AND PREFERRED STOCK DIVIDENDS
(IN MILLIONS OF DOLLARS)

	<u>6 months</u>		<u>Years ended March 31,</u>		<u>Years ended December 31,</u>	
	<u>Sept. 30, 2002</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1998</u>	<u>1997</u>
Fixed Charges, as defined:*						
Interest expense	\$ 144.6	\$ 228.1	\$ 290.4	\$ 341.4	\$ 371.6	\$ 438.1
Estimated interest portion of rentals charged to expense	2.7	10.2	2.9	5.2	5.7	6.6
Preferred dividends of wholly owned subsidiary	22.6	45.3	(29.6)	74.0	42.9	32.9
Total fixed charges	169.9	283.6	263.7	420.6	420.2	477.6
Preferred Stock Dividends as defined:*	5.9	20.3	(18.8)	49.6	29.5	33.8
Total fixed charges and preferred dividends	\$ 175.8	\$ 303.9	\$ 244.9	\$ 470.2	\$ 449.7	\$ 511.4
Earnings, as defined:*						
Income from continuing operations	\$ 69.0	\$ 293.4	\$ (88.2)	\$ 82.6	\$ 110.6	\$ 232.9
Add (deduct):						
Provision for income taxes	41.3	176.1	180.4	134.0	59.1	111.8
Minority interest	-	0.1	0.1	0.1	(0.7)	1.9
Undistributed loss (income) of less than 50% owned affiliates	-	-	1.4	2.6	10.3	(11.1)
Fixed charges as above	169.9	283.6	263.7	420.6	420.2	477.6
Total earnings	\$ 280.2	\$ 753.2	\$ 357.4	\$ 639.9	\$ 599.5	\$ 813.1
Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends	1.6 x	2.5 x	1.5 x	1.4 x	1.3 x	1.6 x

* "Fixed charges" represent consolidated interest charges and an estimated amount representing the interest factor in rents. "Preferred Stock Dividends" represent preferred dividend requirements multiplied by the ratio which pre-tax income from continuing operations bears to income from continuing operations. "Earnings" represent the aggregate of (a) income from continuing operations, (b) taxes based on income from continuing operations, (c) minority interest in the income of majority-owned subsidiaries that have fixed charges, (d) fixed charges and (e) undistributed income of less than 50% owned affiliates without loan guarantees.

EXHIBIT 12.1

PACIFICORP
STATEMENTS OF COMPUTATION OF RATIO
OF EARNINGS TO FIXED CHARGES
(IN MILLIONS OF DOLLARS)

	<u>6 months</u>		<u>Years ended March 31,</u>		<u>Years ended December 31,</u>	
	<u>Sept. 30, 2002</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1998</u>	<u>1997</u>
Fixed Charges, as defined:*						
Interest expense	\$ 144.6	\$ 228.1	\$ 290.4	\$ 341.4	\$ 371.6	\$ 438.1
Estimated interest portion of rentals charged to expense	2.7	10.2	2.9	5.2	5.7	6.6
Preferred dividends of wholly owned subsidiary *	22.6	45.3	(29.6)	74.0	42.9	32.9
Total fixed charges	\$ 169.9	\$ 283.6	\$ 263.7	\$ 420.6	\$ 420.2	\$ 477.6
Earnings, as defined:*						
Income from continuing operations	\$ 69.0	\$ 293.4	\$ (88.2)	\$ 82.6	\$ 110.6	\$ 232.9
Add (deduct):						
Provision for income taxes	41.3	176.1	180.4	134.0	59.1	111.8
Minority interest	-	0.1	0.1	0.1	(0.7)	1.9
Undistributed loss (income) of less than 50% owned affiliates	-	-	1.4	2.6	10.3	(11.1)
Fixed charges as above	169.9	283.6	263.7	420.6	420.2	477.6
Total earnings	\$ 280.2	\$ 753.2	\$ 357.4	\$ 639.9	\$ 599.5	\$ 813.1
Ratio of Earnings to Fixed Charges	1.6 x	2.7 x	1.4 x	1.5 x	1.4 x	1.7 x

* "Fixed charges" represent consolidated interest charges, an estimated amount representing the interest factor in rents and preferred stock dividend requirements of majority-owned subsidiaries. "Preferred dividends of wholly owned subsidiary" represents preferred dividends multiplied by the ratio which pre-tax income from continuing operations bears to income from continuing operations. "Earnings" represent the aggregate of (a) income from continuing operations, (b) taxes based on income from continuing operations, (c) minority interest in the income of majority-owned subsidiaries that have fixed charges, (d) fixed charges and (e) undistributed income of less than 50% owned affiliates without loan guarantees.

EXHIBIT 12.2

PACIFICORP
 STATEMENTS OF COMPUTATION OF RATIO
 OF EARNINGS TO COMBINED FIXED CHARGES AND PREFERRED STOCK DIVIDENDS
 (IN MILLIONS OF DOLLARS)

	<u>6 months</u>		<u>Years ended March 31,</u>		<u>Years ended December 31,</u>	
	<u>Sept. 30, 2002</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1998</u>	<u>1997</u>
Fixed Charges, as defined:*						
Interest expense	\$ 144.6	\$ 228.1	\$ 290.4	\$ 341.4	\$ 371.6	\$ 438.1
Estimated interest portion of rentals charged to expense	2.7	10.2	2.9	5.2	5.7	6.6
Preferred dividends of wholly owned subsidiary	22.6	45.3	(29.6)	74.0	42.9	32.9
Total fixed charges	169.9	283.6	263.7	420.6	420.2	477.6
Preferred Stock Dividends as defined:*	5.9	20.3	(18.8)	49.6	29.5	33.8
Total fixed charges and preferred dividends	\$ 175.8	\$ 303.9	\$ 244.9	\$ 470.2	\$ 449.7	\$ 511.4
Earnings, as defined:*						
Income from continuing operations	\$ 69.0	\$ 293.4	\$ (88.2)	\$ 82.6	\$ 110.6	\$ 232.9
Add (deduct):						
Provision for income taxes	41.3	176.1	180.4	134.0	59.1	111.8
Minority interest	-	0.1	0.1	0.1	(0.7)	1.9
Undistributed loss (income) of less than 50% owned affiliates	-	-	1.4	2.6	10.3	(11.1)
Fixed charges as above	169.9	283.6	263.7	420.6	420.2	477.6
Total earnings	\$ 280.2	\$ 753.2	\$ 357.4	\$ 639.9	\$ 599.5	\$ 813.1
Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends	1.6 x	2.5 x	1.5 x	1.4 x	1.3 x	1.6 x

* "Fixed charges" represent consolidated interest charges and an estimated amount representing the interest factor in rents. "Preferred Stock Dividends" represent preferred dividend requirements multiplied by the ratio which pre-tax income from continuing operations bears to income from continuing operations. "Earnings" represent the aggregate of (a) income from continuing operations, (b) taxes based on income from continuing operations, (c) minority interest in the income of majority-owned subsidiaries that have fixed charges, (d) fixed charges and (e) undistributed income of less than 50% owned affiliates without loan guarantees.

November 4, 2002

Securities and Exchange Commission

450 Fifth Street, N.W.

Washington, D.C. 20549

Commissioners:

We are aware that our report dated October 31, 2002 on our review of interim financial information of PacifiCorp (the "Company") as of and for the period ended September 30, 2002 and included in the Company's quarterly report on Form 10-Q for the quarter then ended is incorporated by reference in its Registration Statement on Form S-3 (No. 333-91411).

Very truly yours,

PricewaterhouseCoopers LLP

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of PacifiCorp (the "Company") on Form 10-Q for the quarterly period ended September 30, 2002 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Judith A. Johansen, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Judith A. Johansen

Judith A. Johansen

President and Chief Executive Officer, PacifiCorp

November 5, 2002

Exhibit 99.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of PacifiCorp (the "Company") on Form 10-Q for the quarterly period ended September 30, 2002 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Richard Peach, as Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Richard Peach

Richard Peach

As Chief Financial Officer, PacifiCorp

November 5, 2002