PACIFICORP

ANNUAL REPORT 1991

PACIFICORP

PacifiCorp is a diversified electric utility company serving 1.3 million retail customers in seven states. As measured by energy sales, the company is the third largest electric utility west of the Rocky Mountains. Major nonelectric businesses include NERCO, a mining and resource development subsidiary, and Pacific Telecom, a telecommunications subsidiary.

MILLIONS OF DOLLARS* / FOR THE YEAR

	1991	1990	1991 to 1990 Percentage Comparison	5-Year Compound Annual Growth
OPERATING RESULTS				
Revenues	$ 4,007	$ 3,838	4%	5%
Income from Operations	1,126	1,091	3	4
Net Income	507	474	7	7
Earnings Available for Common Stock	481	452	6	9
DATA PER COMMON SHARE				
Earnings	$ 1.86	$ 1.85	1%	7%
Dividends Paid	1.47	1.41	4	4
Book Value	13.40	12.69	6	3
Stock Price Range	25 [illegible] - 20 [illegible]	23 [illegible] - 17 [illegible]	12[a]	7[a]
FINANCIAL POSITION AT DECEMBER 31				
Assets	$ 13,229	$ 12,372	7%	7%
Capitalization	9,198	8,272	11	7
Capital Structure:				
Long-Term Debt and Capital Lease Obligations	56%	56%		
Preferred Stock	6	5		
Common Equity	38	39		
OTHER STATISTICS				
Return on Average Common Equity	14.3%	14.9%		
Market to Book Value (Year End)	180%	176%		
Cash Flow from Operating Activities	$ 1,276	$ 1,132		
Common Shares (Average, Thousands)	258,350	244,467		

*Except per share amounts. (a) Based on year-end price.

Cover Photo

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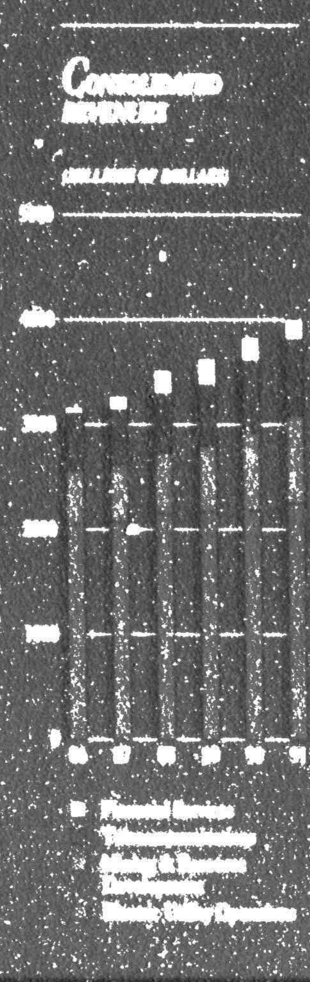

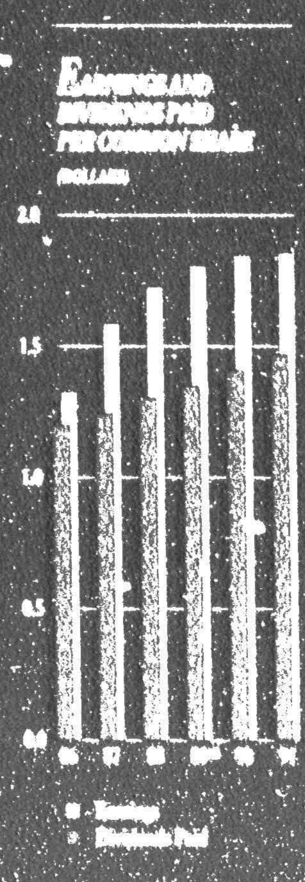

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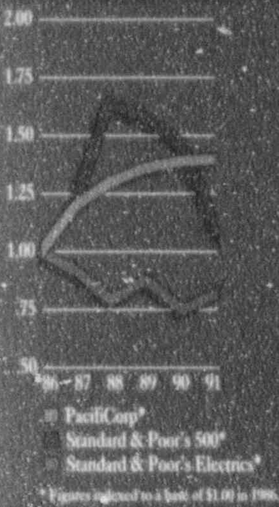
FINANCIAL REVIEW

INVESTMENT PERFORMANCE

- PacifiCorp's 1991 net income rose seven percent to $507 million.
- Earnings per common share gained $.01, or one percent, to $1.86.
- Common dividends increased four percent.

EARNINGS PER COMMON SHARE

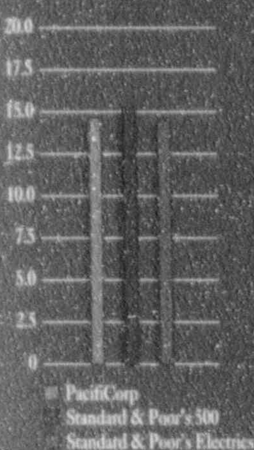
(DOLLARS)



- PacifiCorp's five-year total investment return stands at 14.7 percent.
- The S&P 500's stock price appreciation and dividends combined to return 15.3 percent.
- The S&P Electric Utility Index returned 14.6 percent over the five-year period.

TOTAL INVESTMENT RETURN FIVE-YEAR COMPOUND RATE 1986-1991

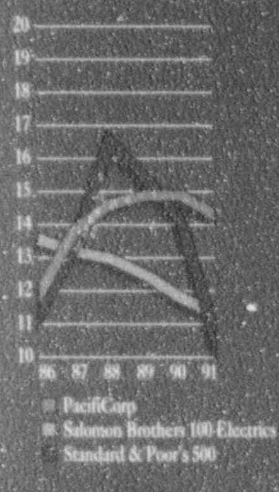
(PERCENT)



- PacifiCorp's return on average common equity beat both indices in the past two years and at least three of the last five.
- PacifiCorp's 1991 return was 14.3 percent.
- In 1991, the Salomon 100 Electric Utilities and S&P 500 returns were 11.3 percent and 10.3 percent, respectively.

RETURN ON AVERAGE COMMON EQUITY

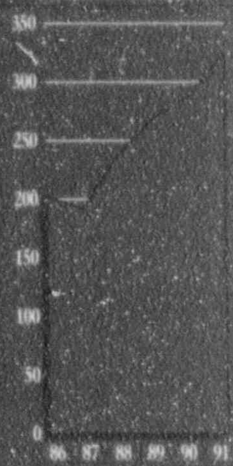
(PERCENT)



SEGMENT HIGHLIGHTS

SALES TO OTHER UTILITIES

(MILLIONS OF DOLLARS)

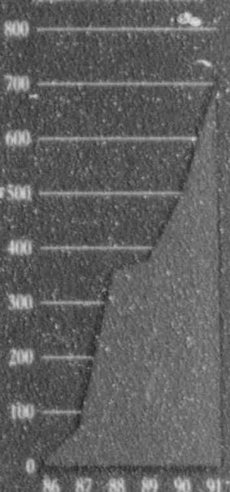


ELECTRIC UTILITY OPERATIONS

Energy sales to other electric utilities are an important source of revenue and earnings growth for PacifiCorp. Recent low-cost acquisitions of coal-fired power plants and transmission rights contributed to these gains. Ultimately though, it is PacifiCorp's status as a low-cost power producer that makes the telling difference in the competitive wholesale energy marketplace.

GAS RESERVES

(BILLIONS OF CUBIC FEET)

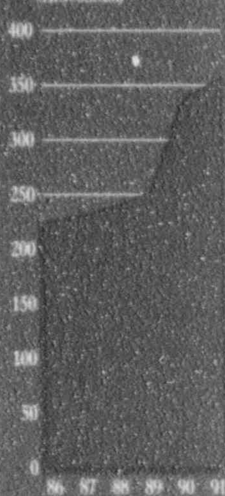


MINING & RESOURCE DEVELOPMENT

NERCO's natural gas reserves and production volumes increased significantly in 1991 with the purchase of $500 million of offshore Gulf coast properties. Historically low gas prices experienced later in the year and projected for the duration of 1992 will have a substantial negative effect on NERCO's 1992 results.

ACCESS LINES

(THOUSANDS)



TELECOMMUNICATIONS

The number of access lines served by Pacific Telecom continues to grow as the telecommunications company focuses on building its local telephone operations. Another local telephone company was acquired in 1991 as Pacific Telecom actively seeks expansion opportunities, particularly in the Upper Midwest.

To Our Shareholders,

The year 1991 was an excellent year by most measures. We acquired additional low-cost generating assets and other earning assets in electric operations; continued consolidating our communication company investment into local exchange and cellular operations; and, at NERCO, made what we still think to be a fine long-term natural gas investment. However, for the short term, that investment is raising unforeseen challenges.

Since the early 1991 acquisition, natural gas prices have fallen and remained low. This has put earnings and cash flow pressure on NERCO and is impacting the credit quality of that company and other of our nonelectric businesses.

As a result, during the first quarter of 1992 we expect to record a substantial after-tax writedown of NERCO's oil and gas properties that will range between $150 million and $175 million. The company is also considering early adoption of a number of pending accounting changes required of all companies associated with recent pronouncements of the Financial Accounting Standards Board. These changes relate to retiree health care costs and other matters more fully described in the accompanying financial statements. We will also review the carrying value of our other assets to ensure that their restated carrying value is appropriate in light of current economic factors and are conservatively stated.

The balance of my letter will focus on helping you understand our major 1991 achievements, our plans for 1992, and the continued underlying strength of PacifiCorp.

Financial highlights for 1991 were:

- Revenues increasing 4%, exceeding $4 billion for the first time;
- Net income increasing to $507 million, a 7% gain;
- Earnings available for common stock increasing to $481 million, up 6%;
- Dividends paid per share increasing to $1.47, up 4%;
- Book value increasing to $13.40 per share, also up 6%;
- And, although earnings per share increased only to $1.86, we covered the earnings requirements on the 13.9 million increase in average shares outstanding that were required to provide needed growth capital.

As we move into 1992, a major emphasis will be improving the credit quality of our nonelectric businesses, reviewing our assets with a view to disposing of those which do not have a reasonable expectation of meeting our earnings objectives, and continuing on our course of improving the competitive position of our electric utility operations.

We are also presently fine tuning our overall long-term comprehensive strategic objectives. From the investors' point of view, the overall strategy has not changed from that already communicated to you. In fact, I believe that continuity of strategic direction continues to distinguish PacifiCorp from others in our industry.

A.M. GLEASON
President
and Chief Executive Officer

We also continue to refine our organizational structure so that it can most effectively and efficiently address the essential task of economically operating the company and meeting our customer needs by taking full advantage of the resources at our command — be they our talented employee group, our low-cost power plants, our economical coal mines, our highly technological telephone operations, or the breadth of our power transmission line access.

As a part of this activity, the corporate management group and the electric management group have been blended together to eliminate redundancy, reduce cost, and place management closer to the decision-making process. This also reemphasizes that we view ourselves primarily as an electric utility, not as a conglomerate. In that regard, we expect to see electric utility operations continue to hold their significance as PacifiCorp's largest business segment.

We already operate one of the strongest utility systems in the West and I believe that the actions undertaken in 1991 and under way in 1992 will add to that strength.

We have continued to meet our price commitments to our customers set forth in the approval of the PacifiCorp/Utah Power merger with our customers benefiting from annualized price reductions totaling $206 million. We are now delivering electrical energy to our customers throughout our system at prices that are approximately the same as those charged in the early 1980s in nominal terms, and, in inflation-adjusted terms, equal to those of the mid-1970s. However, we must continuously improve the way we operate the electric business. Even though we already run four of the nation's twelve lowest-cost coal-fired generating plants, we believe that the electric business will become more competitive and that we must strive to be among the low-cost producers if we are to prosper.

Consistent with this view, I would like to bring you up-to-date on a number of specific items in the electric business that build significant long-term value:

- The purchase of Cholla Unit 4 from Arizona Public Service was completed on July 17, 1991 — in time for us to sell power to that utility and help meet their summer peak demand. The purchase covered a coal-fired 350-megawatt unit and related common facilities for approximately $630 per kilowatt of proven, coal-fired capacity.
- We received bankruptcy court approval in February 1992 of a proposed transaction to:
  - Buy 243 megawatts of plant capacity and related fuel supply from the bankrupt Colorado-Ute Electric Association's share of the Craig and Hayden coal-fired plants;
  - Sell 176 megawatts of power under a long-term power contract to Public Service Company of Colorado; and,
  - Enter a 50-megawatt seasonal power exchange agreement with Tri-State Generation and Transmission Cooperative.
- We reacquired substantially all of the ownership rights to the Wyodak plant which will ensure its long-term, low-costpower availability.

Collectively, these major transactions add to our ability to meet our load growth into the latter part of the decade and ensure availability of continued low-cost coal and generating plant capacity. We expect to add to our ability to meet our future load growth through the Demand Side Resource program described in the body of the report.

Pacific Telecom experienced a year of extraordinary change in 1991 — strengthening an already strong core of business activities.

Beginning with the late 1990 purchase of a local Wisconsin telephone exchange company with 64,500 access lines, Pacific Telecom is reemphasizing and building on its heritage as a local telephone company. This past summer we purchased a small local telephone company in Minnesota, adding another state to our service territory and increasing our presence in the Upper Midwest where other acquisition candidates are available.

Pacific Telecom continues to develop the business opportunities accompanying the 1.9 million potential customers (or POPS) that make up our franchised cellular telephone markets. This business should continue to increase its contribution to PTI's bottom line in the near term.

The long distance market in Alaska underwent another change in 1991 with the introduction of intrastate market competition. To date, Alascom has retained a very strong 80 percent of total calling volume.

Alaska's interstate long distance market also saw a new development in 1991. In the fall, we reached agreement with AT&T to sell Alascom's interstate long distance business for $255 million and to sell two-thirds of our capacity on the spur of the North Pacific fiber optic cable connecting Alaska with Oregon for $75 million.

Assuming the transaction as contemplated receives necessary approvals, the $255 million and the $75 million will be paid to PTI over five years providing transition income and cash for debt reduction and expansion of local exchange properties. The transaction will also resolve long-standing marketing and regulatory issues in Alaska.

PTI sold its cellular operations in Santiago, Chile, resulting in an after-tax gain of $17 million again providing cash for expanding local telephone operations. Although the

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sale of our international unit, TRT/FTC, fell through, we still expect to achieve value for this noncore telecommunications business.

On the strength of strong coal earnings and the asset sales discussed later in this report, NERCO achieved financial results in 1991 similar to those of the prior year. However, 1992 looks to be a difficult year for the mining and resource development company because of continuing low prices for natural gas and other commodities.

As a result of these difficulties, NERCO expects to report a net loss for the first quarter of 1992 and, absent general improvement in natural gas prices, will continue to experience depressed results for the balance of the year.

Looking beyond 1992, it's important to remind ourselves why NERCO chose to invest in natural gas. Here, in spite of current low prices, our underlying premise remains clear and true — natural gas should experience increasing demand and price over time as it is a clean, socially-acceptable fuel priced less per BTU than oil.

Rather than simply waiting for price improvement which we believe will come, NERCO is aggressively managing its business to improve its credit quality and reduce other risks.

As always, I appreciate the commitment and dedication PacifiCorp's talented employees have shown toward building a strong and competitive company. This commitment will pay off, as together we are building a company that will be a leader in each of our core business industries.

To our investors, I'm grateful for the confidence and trust you've placed in PacifiCorp over the years. We'll work hard to continue earning that confidence and trust as we strive to build value for the long term.

A.M. Gleason

A.M. Gleason

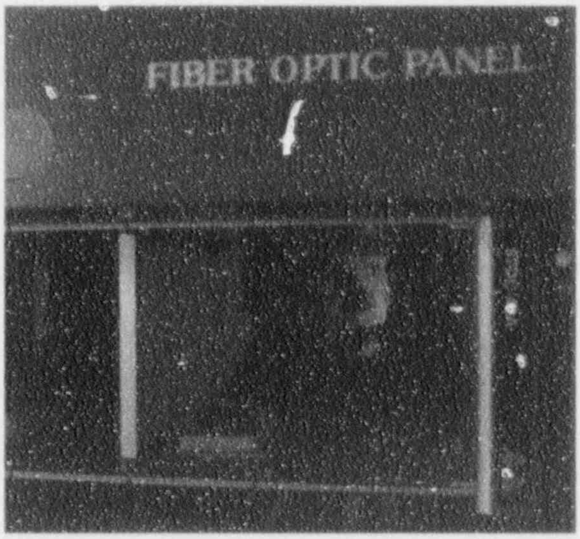
President and Chief Executive Officer

Cholla Acquisition

Acquired from Arizona Public Service Company in July 1991, Unit 4 of the coal-fired Cholla power plant is a low-cost, lower-risk alternative to building new, large-scale plants. Pictured are Mary Romans, PacifiCorp's Cholla plant site engineer and APS plant control operator, Richard Fraley.

Nerco Coal

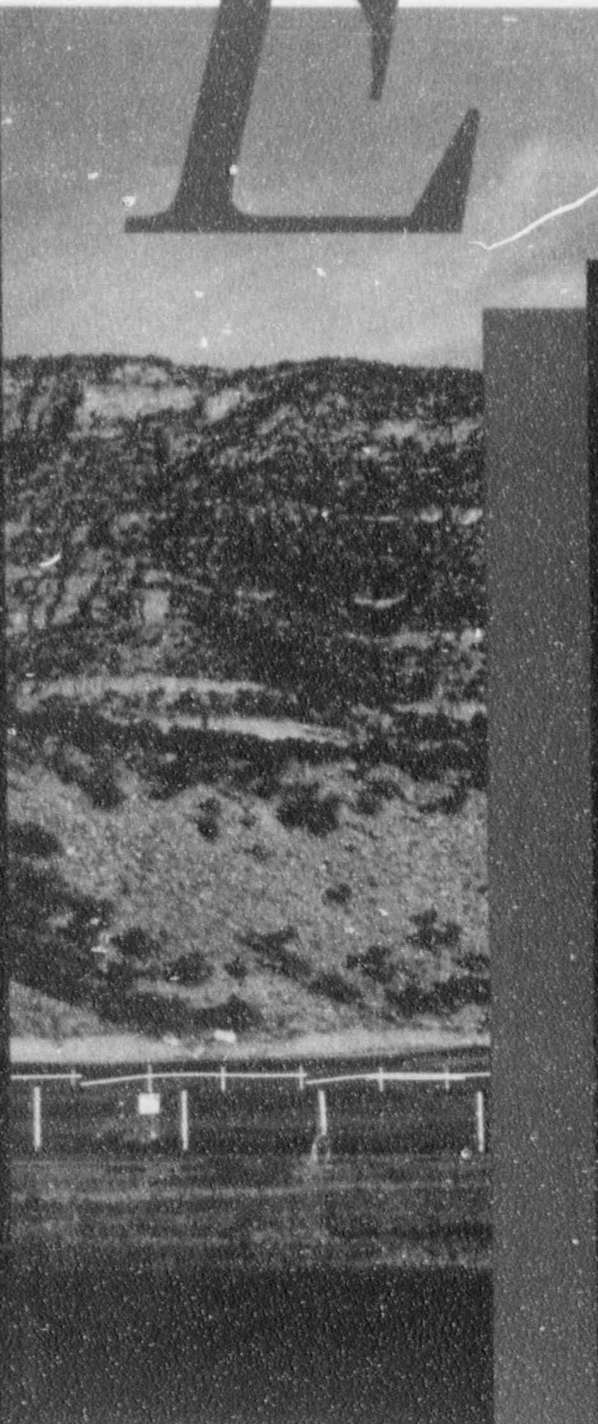
NERCO improved operating efficiency, reduced costs and put together an aggressive marketing strategy that resulted in coal production of 28 million tons in 1991. Most of NERCO's coal is sold to electric utility companies through stable, long-term contracts.



Fiber Optic Cable Control Center

Downtown Portland is the North American terminus of the 5,200-mile North Pacific fiber optic cable — the first direct fiber optic link between the U.S. and Japan. At the Gateway Operations Center, the cable, with its ability to handle 85,000 simultaneous messages, connects with fiber optic cables belonging to major long distance carriers.

ELECTRIC UTILITY OPERATIONS



Meeting Customers' Needs; Producing Earnings Growth; Caring for the Environment

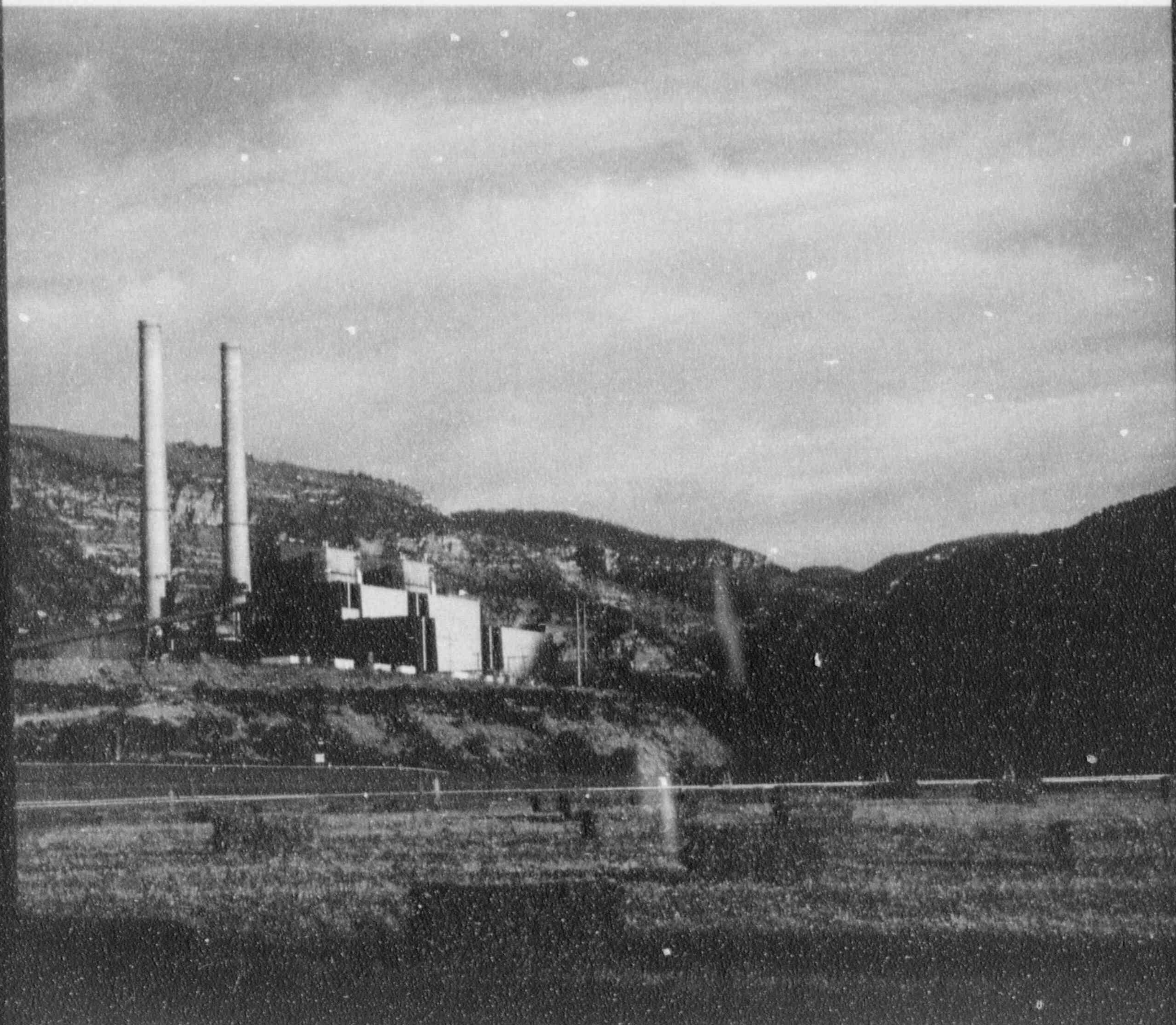
As measured by energy sales, PacifiCorp is the largest investor-owned electric utility in the Pacific Northwest. Some 1.3 million retail customers in seven states rely on the company's Pacific Power and Utah Power divisions for electricity and related energy services.

With 1991 earnings contribution of $347 million, electric utility operations represent 72 percent of PacifiCorp's earnings total. And with steady customer growth continuing throughout its service area, the company faces the challenge of planning for customers' energy needs, while simultaneously increasing earnings and caring for the environment.

Broad-Based Resource Plan Guides Company's Future

PacifiCorp's investments in power resources are guided by a broad-based "least cost" plan. The plan integrates traditional power resources, such as coal-fired and hydroelectric plants, with alternatives like geothermal, advanced natural gas-fired generation and conservation. This approach helps control costs and assure efficient, reliable energy supplies for the future.

In 1991, PacifiCorp took several steps toward implementing its plan. In July, the company bought an existing coal-fired generating unit (Cholla Unit 4) and transmission rights from Arizona Public Service Company.



Huntington Power Plant

Central Utah's Huntington power plant uses clean-burning, low-sulfur coal from a nearby company-owned mine. The neighboring company-owned farm uses water from the plant to irrigate alfalfa and other crops. Compared to conventional water-handling methods, the plant has saved $42 million since 1974 when irrigation began.

The $630-per-kilowatt purchase price of the 350-megawatt facility was one-third that of an equivalent, newly-constructed unit. In addition, the transaction includes far-reaching power planning and operating agreements beneficial to both companies.

In a second transaction, PacifiCorp received bankruptcy court approval to buy 243 megawatts of coal-fired power plants from the bankrupt Colorado-Ute Electric Association. The Colorado-Ute transaction, like the Arizona purchase, allows PacifiCorp to buy proven, low-cost generating resources and secure transmission access for considerably less than the cost of building new facilities.

Increasing the operating efficiency of the company's existing plants is another important element of the resource plan. In 1991, several of PacifiCorp's coal-fired plants set all-time production records, along with reducing production costs.

As part of the effort to manage fuel costs and increase operating flexibility, control of two Wyoming surface coal mines serving Wyoming power plants was transferred from NERCO to the electric utility. The mines furnish coal to plants near Rock Springs and Casper. With these additions, the utility now owns and operates most of the mines supplying fuel to its plants.

At the same time the company is increasing operating efficiency and flexibility at its coal-fired and hydroelectric plants, it is also actively exploring the potential of new power generation options, including renewable resources.

As an example, PacifiCorp will invest $1 million in a solar demonstration project in the California desert near Barstow. The company is already part owner of a northern California windfarm and operator of a 25-megawatt geothermal plant in southwestern Utah.

Heat Pump Marketing

To help PacifiCorp's electric customers benefit from high standards in heat pump installation and service, the H-Pro Network was established with qualifying local dealers.

Claudia Steinbroner, (RIGHT) Pacific Power commercial sales representative and John Perkins, an H-Pro contractor with Kennedy Fuel, were members of a team responsible for system design and installing 150 heat pumps at this $8.5 million retirement complex in Medford, Oregon.

When the heat pumps are combined with the new building's other energy efficiency measures, the customer expects to save $13,000 in annual energy costs and see payback on investment in under six years. In 1991, the 29 H-Pro contractors in the Medford area installed 1,300 heat pumps – providing a valued service for PacifiCorp's customers.

PacifiCorp is also firmly committed to developing another important resource option — demand-side management, also known as conservation or energy efficiency.

Reducing energy consumption through proven investments in energy efficiency frees existing power resources for other uses, benefiting customers and shareholders alike. PacifiCorp expects to invest as much as $450 million in demand-side resources (conservation) over the next five years.

Energy Efficiency at the 1000 Broadway Building

The company's integrated resource plan includes proven investments in energy efficiency. By exceeding existing building energy codes, owners of downtown Portland's new 1000 Broadway Building (LEFT) expect to save more than 30 percent in their annual electric usage.

PacifiCorp's up-front investment in high-efficiency windows, insulation, lighting, heating and cooling systems and controls will be largely repaid by the building's owners over 15 years through an "energy service charge." The building received a national energy efficiency award for building management from ***Energy User's News****.*

Installation of a floor-by-floor heating and cooling system (INSET), coupled with state-of-the-art control technology, enables the management of the 1000 Broadway Building to remotely control temperatures in individual zones and program lighting needs for each floor.

PACIFICORP COMBINES SERVICE WITH RESPONSIBILITY TO BRING POWER TO VALUED CUSTOMERS

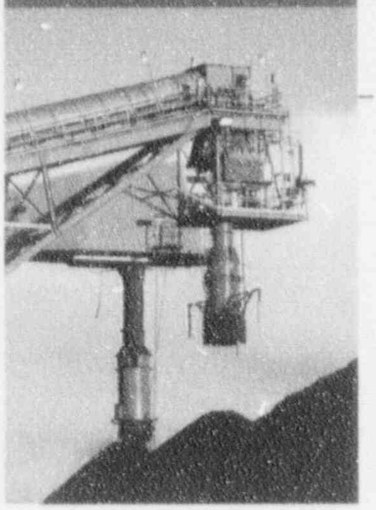
PacifiCorp's electric utility operations generate power at coal-fired and hydroelectric plants and rely on a transmission and distribution network to serve retail and wholesale customers throughout the Pacific Northwest, Rocky Mountain and desert Southwest regions. PacifiCorp also offers retail customers a variety of services encouraging energy efficiency.

Earnings depend on efficiently and economically balancing power-supply resources with customer demand; utility commission practices; regional economic conditions; retention of municipal franchises; weather variations affecting customer usage and hydroelectric production; fuel costs; wholesale firm power marketing success; and the cost of debt and equity.

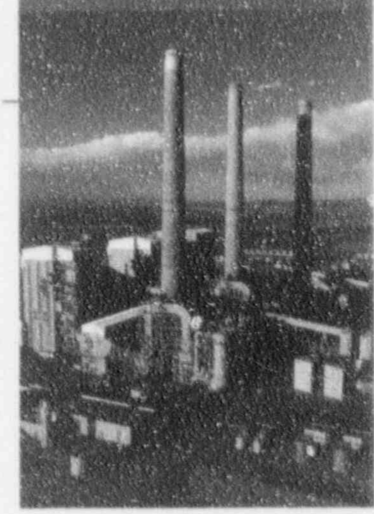
Using energy as efficiently as possible frees existing power resources for other uses. "The Energy FinAnswer" and other efficiency programs help customers like the 1000 Broadway Building in Portland increase comfort and save money.

ENERGY EFFICIENCY

COAL



COAL-FIRED GENERATION



HYDROELECTRIC PLANTS

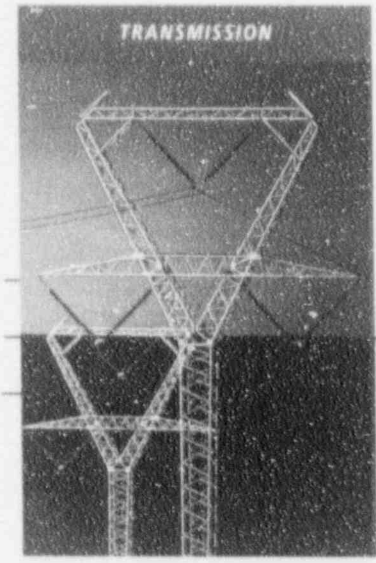
At an average cost of $17 per ton, the mining operations owned by the utility are among the nation's most efficient and largest producers of clean-burning, low-sulfur coal. Owning the mining operations provides a utility like PacifiCorp greater operating flexibility and control over fuel costs, the largest cost in producing and delivering power. With the recent acquisitions of the Glenrock and Bridger mines in Wyoming and the Centralia mine in Washington, PacifiCorp now controls most of the fuel supplying the company-managed, coal-fired power plants.

Like most of PacifiCorp's other coal-fired plants, the Hunter plant in central Utah is close to its low-sulfur coal supplier — the company-owned and operated Cottonwood mine.

Seasonal power dispatching assures the most efficient use of power plants like Hunter. In the winter, energy from Hunter is occasionally dispatched to the Pacific Northwest as the company's northern customers experience an annual peak demand during the heating season. In the summer, Hunter's output is used to meet air conditioning and irrigation loads of Utah and the desert Southwest.

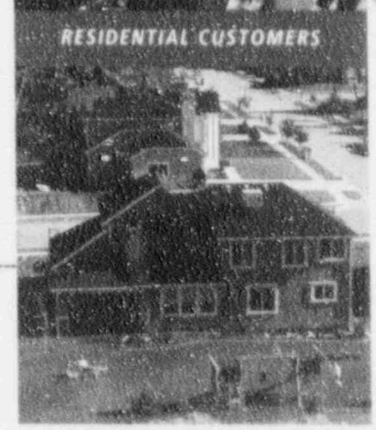
Hydroelectric power is PacifiCorp's lowest-cost power in terms of fuel costs. In operation since 1931, the company's largest hydroelectric plant is the Merwin project on Washington State's Lewis River. In 1991, Merwin received a national commendation from the Edison Electric Institute for its wildlife habitat management program.

Three large customer groups (RIGHT) represent most of the company's retail electric sales. In 1991, industrial sales comprised 30 percent of the company's total electric revenues, commercial 23 percent and residential 29 percent.



Producing low-cost power is one thing; moving it long distances from the source to customers is yet another. PacifiCorp deploys the nation's largest geographical transmission and distribution system to accomplish the task. To keep market paths open and reliable, continual investments are made in new lines and upgrades to existing facilities.

Between power sources and customers are PacifiCorp's two system control centers. Employees at the new Portland, Oregon center rely on human intelligence, market savvy and computer capacity to minimize power costs. With the moment-to-moment, day-to-day economic dispatch decisions made at this and a sister facility in Salt Lake City, PacifiCorp puts its generation and transmission resources to optimum use.



Known for its "Fruit of the Month Club" and other food specialties, Harry & David's (TOP) added another assembly line for chocolate products at its Medford, Oregon, plant.

Home to the Utah Jazz of the National Basketball Association, Salt Lake City's new 20,000 seat Delta Center (CENTER) also hosts major cultural events and is representative of a large commercial electric customer.

Kids don't notice the sun's heat in Sandy, Utah (BOTTOM), but air conditioning is the reason residential summer electricity use increases in PacifiCorp's Utah service area.

Environmental Stewardship Remains A Key Objective

In 1991 PacifiCorp continued its long-standing commitment to the environment. Our comprehensive environmental goal seeks new ways to expand programs benefiting the environment, while balancing the interests of customers and shareholders. Action items include accelerated efficiency programs and the acquisition of additional renewable power sources.

PacifiCorp, of necessity, will continue to rely heavily on coal to generate electricity. As such, the company is aware of the environmental issues affecting coal, including carbon dioxide emissions (CO_2) and public concerns about possible global warming. As a result, developing a CO_2 offsetting program is one focus of the environmental goal.

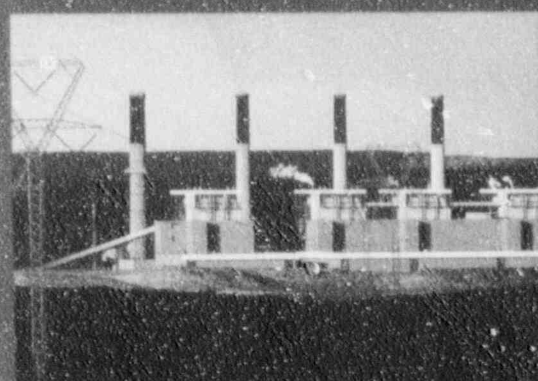
Attention to Costs Boost Wholesale Power Sales – Aids Economic Development

In the wholesale power market, low-cost producers reign. In 1991, sales to other utilities totaled $325 million, or 14 percent of electric revenues. Wholesale power sales are expected to increase another $130 million in 1992, the first full year of large new contracts with several western utilities.

Low production costs and resulting low prices also aid economic development efforts in the service area. Benefits derived from power plant and transmission asset acquisitions, seasonal power exchanges and the PacifiCorp-Utah Power merger collectively combine to help maintain stable-to-lower electricity prices. Some 32 separate price reductions have taken effect in the four years following the merger's announcement. Prices in Utah alone have declined more than 20 percent, while 1991's system average price approximates 1983's average.

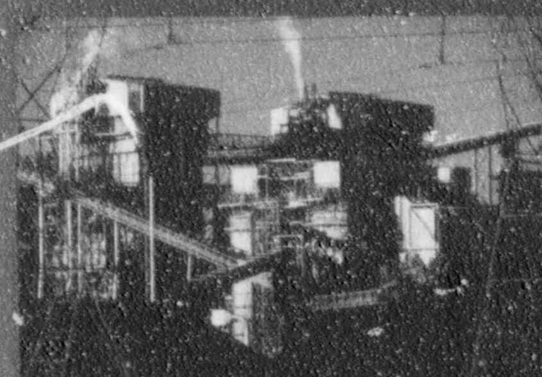
Centralia Mine Award

In 1991, PacifiCorp's Centralia mine in Washington State received the prestigious Director's Award from the U.S. Department of the Interior Office of Surface Mining. The award recognizes the mine's outstanding achievement in a special area of reclamation — exemplary reforestation. As the award evidences, the company takes its environmental commitment very seriously.



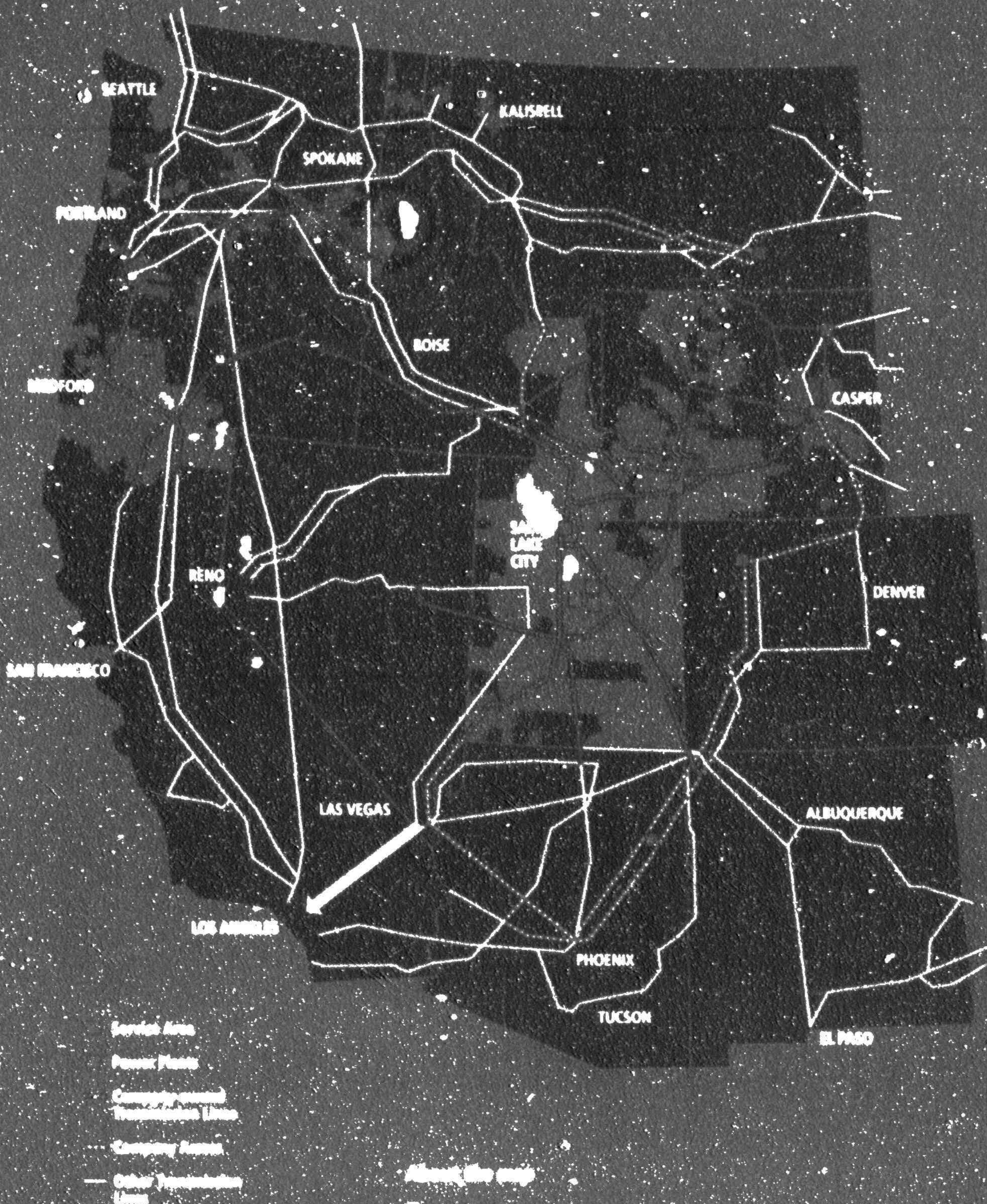
Jim Bridger Plant Sets Safety Record

Safety protects employees and saves money. The 900 employees of the Jim Bridger plant and mine in Rock Springs, Wyoming, know this well, surpassing two million man-hours without a lost-time accident in 1991.



Cholla Plant Purchase Creates Value

In addition to acquiring Unit 4 of Arizona Public Service Company's coal-fired Cholla plant, PacifiCorp entered a 30-year power sales contract and seasonal energy exchange agreement with APS. Power is sold to APS during the summer months when that utility experiences its peak demand. The rest of the year, the unit's output is available for use by PacifiCorp's other wholesale and retail customers.



About the map

MINING & RESOURCE DEVELOPMENT

Coal, Natural Gas and Precious Metals are NERCO's Future

PacifiCorp's 82-percent-owned mining and resource development subsidiary – NERCO – is a leading producer of low-sulfur coal and natural gas, as well as a major North American gold producer.

Reaching $68 million in 1991, NERCO's earnings contribution represent 14 percent of PacifiCorp's total earnings. As a commodity producer in a time of depressed prices, NERCO's primary focus continues to be increasing sales and lowering costs.

1991 Was a Tough Year; 1992 to be Tougher

In a strategy to expand its natural gas production business, NERCO bought $500 million of offshore Gulf coast properties in April 1991. The properties significantly increased the company's gas reserves and production capacity, and offer long-term exploration and development potential. However, since the purchase, natural gas spot prices fell dramatically from 1990 levels, adversely affecting earnings. Although 1991 earnings exceeded those of 1990, the sale of a gas supply contract with a Louisiana electric utility and the settlement of a disputed coal contract added $37 million to NERCO's 1991 earnings contribution.

NERCO reduced its acquisition-related debt by applying funds from this sale and funds received in connection with transferring two coal subsidiaries to PacifiCorp's electric utility operations.

NERCO's Antelope Coal Mine

Shallow, economically accessible coal seams in Wyoming and Montana's Powder River Basin are a major reason NERCO is a low-cost coal producer. The Antelope mine near Douglas, Wyoming, produced 5.4 million tons of low-sulfur coal in 1991. Most of this coal was sold to electric utility customers like Northern States Power Company in Minneapolis.

As a result of the sharp decline in gas prices in early 1992, NERCO expects to recognize a non-cash impairment expense on its oil and gas properties in the first quarter of 1992. The amount of the writedown will be based on NERCO's evaluation of its oil and gas properties at current prices. However, based on early-March 1992 gas prices and other information currently available, the after-tax writedown would range between $150 million and $175 million.

NERCO is continuing to evaluate the carrying value of all its properties in light of related economic factors, including prices received for its commodities, capital expenditure plans and potential asset dispositions. NERCO's commodities prices have generally declined over recent years. Should this trend continue, future writedowns may result. NERCO and PacifiCorp are examining a full range of options to address these issues.

NERCO's 1991 Coal Sales Total 36 Million Tons

NERCO enters 1992 as a leading producer of high-quality, low-sulfur coal – a key competitive advantage as many coal users face the need to reduce sulfur dioxide emissions. These advantages were apparent in NERCO's 1991 sales of some 36 million tons.

Most of NERCO's coal customers are electric utilities with about 75 percent of sales made under long-term contracts. Additionally, the strict new standards of the federal Clean Air Act Amendments of 1990 are stimulating demand for low-sulfur coal. As a result, NERCO is directing its domestic marketing efforts to those customers considering switching to low-sulfur coal or blending cleaner coal with existing supplies.

Foreign customers are also coming to appreciate the desirable characteristics of NERCO's Powder River Basin coal. In 1991, testing quantities of coal were shipped to Carboex, a Spanish utility fuel buyer, and Chugoku Electric Power of Japan.

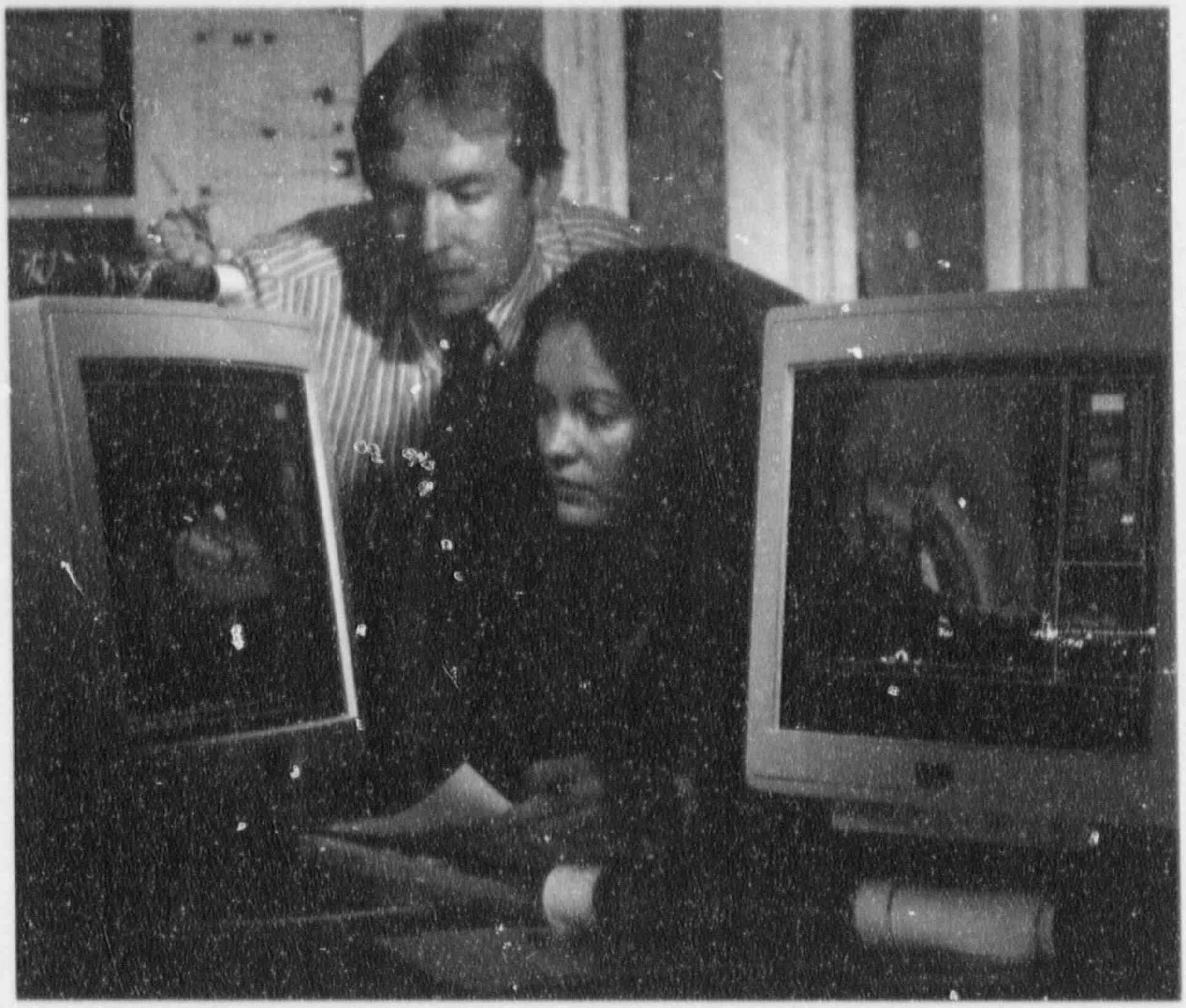
As the low-sulfur coal market is extremely competitive, controlling and reducing costs is as important to NERCO's long-term profitability as is controlling over 800 million tons of reserves. Shallow, economically-accessible coal seams, characteristic of Wyoming and Montana's Powder River Basin, are a principal reason NERCO is a low-cost producer. By exploiting its inherent geologic advantage and focusing on costs and productivity, NERCO expects to remain in the competitive forefront for years to come.

NERCO Oil & Gas: Positioned to Perform in the Future

Largely through acquisition, over the last six years NERCO expanded its equivalent natural gas reserves from 13 billion cubic feet to 715 billion cubic feet. Production has grown equally dramatically.

Why did NERCO choose natural gas? The decision's underlying premise is valid and straight forward: natural gas should experience increasing demand and price over time as it is a clean, environmentally acceptable fuel, priced less per BTU than oil.

Prior to the April 1991 acquisition, NERCO was able to do only limited offshore exploration; the company instead focused its growth solely on property acquisition and development. With the acquisition, NERCO can now actively explore its vast new properties and hopes to replace reserves depleted through production with new reserves discovered through



NERCO's Oil & Gas Exploration Center

Before expensive exploratory drilling begins on an oil and natural gas property, a team of Houston-based geologists perform extensive analyses using detailed three-dimensional seismic models and reservoir simulations. Sophisticated computer technology reduces financial risk by identifying optimal drilling locations.

Offshore Oil & Gas Production Platform

The large April 1991 acquisition of Gulf coast offshore properties added to NERCO's natural gas reserves, expanded production rates and increased marketing access and power. Although natural gas prices were historically low in 1991, NERCO expects natural gas will be more highly valued in the future.

Gold Production: Cripple Creek Mine Makes First Pour

The discovery of 1.5 million ounces of proven gold reserves and deposits at NERCO's Cripple Creek Mine was the 1991 highlight of precious metals operations. Located in the shadow of Colorado's Pike's Peak, the new mine poured its first gold ingot in January 1992.

exploration – a less costly approach to reserve replacement. However, continued low natural gas prices will constrain exploration in 1992.

Natural gas plays a prominent role in the nation's evolving long-term energy policy and future. When the market strengthens as expected, NERCO – with its increased production capability and strong market access — is well positioned to take advantage of opportunity.

TELECOMMUNICATIONS

Expanding Local Phone Business the Top Growth Priority

With an earnings contribution of $69 million in 1991, Pacific Telecom, an 87-percent-owned subsidiary, represented 14 percent of PacifiCorp's total earnings. Pacific Telecom is one of the nation's largest nonBell telecommunications companies, with thousands of customers in rural and suburban areas of 11 states relying on PTI Communications. A vast majority of phone users in Alaska count on Alascom to meet long distance calling needs. And strong growth in the cellular phone service market continues – suggesting the potential for cellular to become an important business.

Expanding local telephone exchange operations is Pacific Telecom's top strategic priority. With roots dating to the early 1950's, Pacific Telecom's local exchange operations provide stability and potential for growth.

Today, Pacific Telecom's local telephone exchange operations, known to customers as PTI Communications, serve over 357,000 access lines in three major markets – Alaska, the West and Upper Midwest. And, the management of PTI Communications believes that serving customers is both a privilege and responsibility.

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Aurora II Launch

Pacific Telecom meets the challenges of Alaska's long distance telecommunication needs with a state-of-the-art, satellite-based system and fiber optic cable. In May 1991, a new generation satellite, Aurora II, was launched from Cape Canaveral, Florida, to its 22,000 mile stationary orbit. Aurora II and a network of over 200 earth stations efficiently solve the dual challenges of Alaska's large size and low-population density.

As a result, PTI strives to deliver quality communication services at reasonable prices – absolute fundamentals to nurturing customer relationships and building shareholder value.

PTI's local telephone exchanges are virtually 100 percent digitally switched – placing the company ahead of the regional Bell operating companies and most other large independent telephone companies. Using this technology, PTI, upon regulatory approval, expects to begin test marketing enhanced services, like calling number and name identification, automatic redial of calling numbers, selective call forwarding, and other services. These services are in addition to the more traditional call-forwarding, call-waiting and custom-ringing services. In keeping with this new state-of-the-art digital technology, PTI's local telephone exchanges rely on more than 800 miles of fiber optic cable.

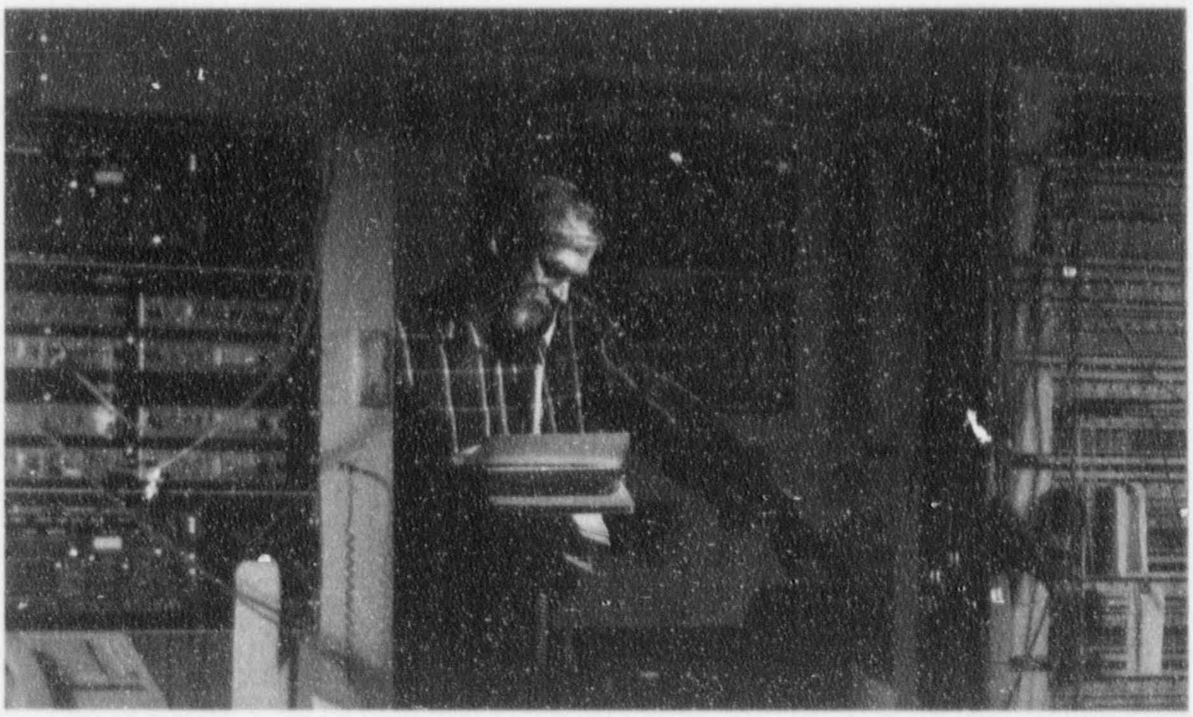
Long Distance Operation in Alaska to Focus on Intrastate Market Pending Sale of Interstate Business to AT&T

Long distance service in Alaska is also a major business of Pacific Telecom. Because the state has a large area and low-population density, providing telecommunications services pose unique operational and marketing challenges. Alascom, a Pacific Telecom subsidiary, answers these challenges with a state-of-the-art satellite network of over 200 earth stations and a new, second-generation satellite – Aurora II. Alascom's private-line and interstate customers rely on quality fiber optic digital service to the lower 48 states as provided through a spur of the North Pacific cable.

Fiber Optic Control Center

Bill Fisher, along with co-workers at the Portland Gateway Operations Center, take responsibility for operating the electronics of the U.S. half of the North Pacific fiber optic cable. The cable spans the ocean from Pacific City, Oregon, to Miura, Japan, near Tokyo; a 700-mile branch of the cable extends northward to Seward, Alaska.

At year-end, about 41 percent of the cable's capacity had been sold to international long distance carriers including US Sprint, MCI, AT&T, British Telecom, Mercury Communications and KDD of Japan. The project experienced a slowing of capacity sales in 1991 as a result of soft global economic conditions. Sales are expected to pick-up in 1992.



Local and Cellular Telecommunications Grow in the Upper Midwest

Pacific Telecom's local and cellular telephone businesses in the Upper Midwest have 98,000 access lines and 1.4 million cellular pops, a measure of population in a franchised cellular service market.

The number of cellular phone customers in the company's Wisconsin market doubled in the last three years. Agricultural customers (TOP), in particular, are switching from business-band radio to higher-quality, versatile cellular service. To make it easier to switch, the company's Appleton, Wisconsin, CelluLink subsidiary will visit customers in person.

Like many professionals, Cyril Wolff (L. RIGHT), a securities brokerage office manager in Appleton, relies on the phone. While on the go, Cyril keeps in touch with customers and Wall Street.

Business phone customers include the Wisconsin Store (L. LEFT) in Tomah. The unique store caters to tourists and, as its name implies, sells only products caught, grown or manufactured in the state.

For years, Alascom furnished interstate long distance service for Alaska, historically the only state not directly served by AT&T. This is expected to change in 1992 as Pacific Telecom shifts more of its resources toward expanding the local telephone exchange and cellular phone businesses. Alascom and AT&T reached an agreement in 1991 to sell Alascom's interstate operations to AT&T pending approvals from Alaska and federal regulators and certain other conditions. The sale is expected to close in late 1992.

Under the sales agreement, Alascom would no longer provide interstate message toll, WATS service and international message toll service between Alaska and the rest of the world. Rather, AT&T would provide these services on terms and conditions identical to those of the lower 48 states where it currently provides service. Under the agreement, AT&T would pay Alascom $255 million over five years and another $75 million over five years for two-thirds of the capacity on the Alaska spur of the North Pacific fiber optic cable. Other than the North Pacific cable capacity, no physical assets or facilities of Alascom would be sold.

Alascom: Sea-Land's Private-line Connection

For Alascom's private-line customers like Sea-Land, the largest marine shipping operation in Alaska, quality fiber optic digital service to the lower 48 states and the rest of the world is provided through a spur of the North Pacific cable. Although Alascom reached an agreement with AT&T to sell its interstate long distance business, private-line customers like Sea-Land will remain an important part of Alascom's business.

The sales agreement provides for AT&T to lease from Alascom, on a long-term basis, facilities necessary to serve the needs of Alaska's interstate long distance customers. Intrastate and private-line services currently furnished by Alascom would be unaffected by the sale.

Alascom More Than Meets Intrastate Market Challenges

Intrastate market competition came to Alaska in 1991. However, Alascom continued providing quality services at competitive prices and, as a result, lost very few customers. Selling Alascom's interstate long distance operation will allow Pacific Telecom to develop a fully unified approach to doing business in the state.

The sale will remove restrictions that currently prevent PTI's local telephone exchanges and intrastate long distance operation from working together for maximum efficiency.

PTI's Strategic Direction Clear – Positioned for Future Growth

With clear, well-established mandates – expand the local telephone exchange service and cellular properties while remaining competitive in the Alaskan intrastate long distance market – Pacific Telecom is positioned for continued growth.

FINANCIAL SECTION CONTENTS

SUMMARY INFORMATION

MILLIONS OF DOLLARS / FOR THE YEAR

	1991	1990	1989	1988	1987	1986	1991 to 1990 Percentage Comparison	5 Year Compound Annual Growth
REVENUES	$ 4,907.0	$ 3,838.3	$ 3,633.5	$ 3,522.4	$ 3,275.2	$ 3,173.0	4%	5%
INCOME FROM OPERATIONS	1,125.7	1,090.5	1,034.3	1,044.3	1,030.0	932.0	3	4
NET INCOME	507.2	473.9	465.6	446.7	411.1	353.4	7	7
EARNINGS CONTRIBUTION ON COMMON STOCK								
Electric Operations	346.6	334.2	329.6	309.0	291.0	227.0	4	9
Mining and Resource Development	67.7	65.0	64.0	59.8	54.2	52.0	4	5
Telecommunications	69.3	72.1	62.8	50.2	35.8	33.9	(4)	15
Financial Services	6.9	7.6	4.1	14.4	9.7	4.1	(9)	11
Corporate	(10.0)	(26.9)	(16.1)	(7.4)	(2.2)	(2.2)	63	(35)
TOTAL	$ 480.5	$ 452.0	$ 444.4	$ 426.0	$ 388.5	$ 314.8	6	9
EARNINGS PER SHARE	$ 1.86	$ 1.85	$ 1.81	$ 1.73	$ 1.59	$ 1.33	1	7
CASH DIVIDENDS PER COMMON SHARE								
Paid	$ 1.47	$ 1.41	$ 1.35	$ 1.305	$ 1.245	$ 1.20	4	4
Declared	$ 1.485	$ 1.425	$ 1.365	$ 1.635	$ 1.245	$ 1.20	4	4
Total assets	$ 13,229	$ 12,372	$ 11,895	$ 11,396	$ 10,303	$ 9,362	7	7
Corporate identifiable assets[a]	$ 236	$ 328	$ 347	$ 317	$ 262	$ 157	(28)	8
Total employees	15,722	16,366	15,492	16,418	15,718	16,124	(4)	(1)
Common shareholders of record *(Thousands)*	162.3	164.6	171.0	188.0	196.7	192.0	(1)	(3)
Book value per share	$ 13.40	$ 12.69	$ 12.29	$ 11.91	$ 11.77	$ 11.34	6	3
Market price per share	$ 25 1/8	$ 22 3/8	$ 22 7/8	$ 17 1/2	$ 16 1/16	$ 17 15/16	12	7
Price earnings multiple	13.5	12.1	12.6	10.1	10.1	13.5	12	–
Pretax interest coverage	2.4	2.4	2.4	2.5	2.7	2.6	–	(2)
Return on average common equity	14.3	14.9	14.9	14.6	13.8	11.9	(4)	4

(a) Corporate assets represent principally cash, cash investments and assets of operating companies held primarily for disposition.

1991 COMPARED TO 1990

♦ Electric Operations' earnings contribution rose $12 million or 4% primarily due to increased energy sales, higher prices for energy sold to other utilities and reduced losses from equity investments in cogeneration projects. Offsetting these gains were increased interest expense, income tax expense and preferred dividend requirements and decreased interest capitalized.

♦ Mining and Resource Development's contribution increased $3 million or 4% primarily due to the sale of a long-term gas supply agreement and the settlement of a coal contract dispute, offset in part by the effects of significant price declines for gas and precious metals and increased operating and interest expense related to the acquisition of gas properties.

♦ Telecommunications' contribution declined $3 million or 4% primarily due to a decline in sales of cable capacity and valuation adjustments associated with an international telecommunications subsidiary, offset in part by the August 1990 acquisition of North-West Telecommunications, Inc. ("North-West"), a medium-sized Midwest local telephone company.

♦ Financial Services' contribution declined $1 million or 9% primarily due to lower average finance assets, increased assets on nonaccrual status and depressed results in its computer leasing business.

♦ Corporate's negative contribution improved by $17 million primarily due to decreased operating losses resulting from sales of noncore businesses and increased consolidated tax benefits.

♦ The average number of common shares outstanding rose 6% due to issuances to the public in March and December 1991, issuances for the dividend reinvestment and employee stock ownership plans and the effect in the prior year of shares held for use in acquisitions.

QUARTERLY INFORMATION[a]

MILLIONS OF DOLLARS / QUARTER ENDED

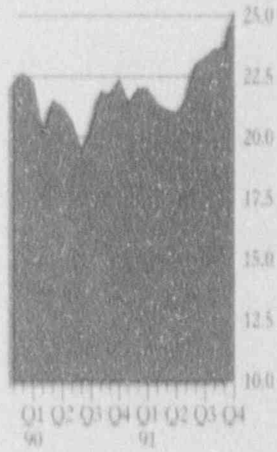
	March 31	June 30	September 30	December 31
1991				
Revenues	$ 975.6	$ 924.4	$ 984.6	$1,122.4
Income from operations	292.1	229.8	257.1	346.2
Net income	136.0	86.1	120.5	164.6
Earnings on common stock	129.5	80.2	113.9	156.9
Earnings per common share	.51	.31	.44	.60
Common dividends paid per share	.36	.36	.375	.375
Common dividends declared per share	.36	.375	.375	.375
Common stock price per share (NYSE)				
High	23	23	23 3/4	25 1/4
Low	20 5/8	20 1/2	20 7/8	22 1/4
1990				
Revenues	$ 912.1	$ 875.6	$ 957.1	$1,093.5
Income from operations	290.0	227.3	261.9	311.3
Net income	130.8	96.1	109.4	137.6
Earnings on common stock	125.8	90.8	104.3	131.1
Earnings per common share	.52	.38	.43	.52
Common dividends paid per share	.345	.345	.36	.36
Common dividends declared per share	.345	.36	.36	.36
Common stock price per share (NYSE)				
High	23 7/8	23 1/2	21 3/8	22 3/4
Low	20 3/4	19 5/8	17 1/2	20

A significant portion of the operations are of a seasonal nature.

(a) Previously reported quarterly information has been revised to reflect the reclassification of certain revenue and expense amounts. These reclassifications had no effect on previously reported consolidated net income.

COMMON STOCK MARKET PRICE

(MONTH-END IN DOLLARS)



1990 COMPARED TO 1989

♦ Electric Operations' contribution rose $5 million or 1% primarily due to a 4% increase in kilowatt-hour sales, merger savings and decreased income tax expense. These gains were offset in part by lower energy sales prices and the effects of settlement of certain nonrecurring contract-related issues in 1989.

♦ Mining and Resource Development's contribution increased $1 million or 2%. Significantly higher coal, oil and gas revenues, resulting from the continued expansion of NERCO's investment in these operations in late 1989 and 1990, accounted for a $7 million increase. The effect of this increase was offset by a $6 million after-tax gain allocated to this segment in 1989 as a result of a change in the Company's carrying value of NERCO common stock following a sale to the public.

♦ Telecommunications' contribution increased $9 million or 15% primarily due to a $12 million gain from the sale of a communications subsidiary and the sale of 31% of the capacity on the North Pacific Cable. These favorable results were partially offset by intrastate toll rate reductions, lower out-of-period interstate revenue adjustments and increased interest expense related to the North-West acquisition.

♦ Financial Services' contribution increased $4 million primarily as a result of the operations of a small manufacturing company obtained in 1990 and a $4 million gain from the sale of five airplanes from its aviation portfolio. These improvements were offset in part by a $4 million loss resulting from the sale of $480 million of assets in January 1990. The asset sale was part of a plan to downsize and reorganize Financial Services.

♦ Corporate's negative contributions were $27 million in 1990 compared to $16 million in 1989. Carrying values of noncore investments were reduced $11 million in 1990, which included the write-off of the Company's remaining equity investment in Equitec Financial Group, Inc.

The year 1991 brought a number of changes for PacifiCorp's core businesses of Electric Operations, Mining and Resource Development and Telecommunications. Reorganizations aimed at improving efficiency and reducing costs touched many parts of the Company. Additional generation resources were acquired, improving Electric Operations' ability to serve its customers at competitive prices in the future. Acquisition of additional gas reserves increased NERCO's exposure to the effects of fluctuating commodity prices. Pacific Telecom expanded its local exchange operations and responded to the introduction of intrastate competition in Alaska.

As part of the effort to manage fuel costs and increase operating flexibility, certain coal mining operations, which had been originally formed to exclusively serve electric generating plants, were transferred from NERCO to Electric Operations. After the transfer, two-thirds of the coal consumed by the Company's ten coal-fired thermal plants is produced by mines now managed by Electric Operations.

The Company presently anticipates that capital spending in the 1992 to 1994 period will exceed net cash flow from operations less dividends by $610 million to $760 million. The Company expects to review and reduce its capital spending plans, particularly in areas affected by lower commodity prices. Financing activities, which involve the issuance of debt, preferred stock and common stock in amounts that would maintain the current capital structure, will be pursued to support the Company's anticipated growth. Estimates of future cash flows in the prior year have been revised downward to reflect lower commodity prices and deletion of $114 million of cash receipts received in 1991 rather than 1993 as anticipated.

ELECTRIC OPERATIONS

PacifiCorp seeks to position itself to meet customer growth in its service areas, estimated to be between 2–3% annually in the next three years, through utilization of a tool called "least cost planning." In this process, the Company balances the goals of supplying the customer with reliable low-cost energy from sources that are friendly to the environment while also increasing shareholder value. In a time of slower economic growth and changing regulation, the Company recognizes that efficient asset management requires greater emphasis on evaluating the contribution to earnings that each potential investment is expected to provide.

The 1991 transaction with Arizona Public Service Company not only added 350 megawatts of generation capacity at a cost of $254 million, but also added: access to low-cost surplus generation; seasonal capacity exchange from existing resources; a significant revenue stream from system sales; improved interconnections with the desert Southwest, California and Nevada wholesale markets; and access to existing combustion turbine capacity for seasonal peaks. During 1991, the Company also invested in construction consisting of: production, $102 million; transmission, $101 million; and distribution and other, $301 million.

The Company's construction and acquisition program for 1992 consists of: production, $133 million; transmission, $150 million; distribution and other, $317 million; and acquisition, $260 million. The 1992 construction program is intended to enhance system efficiencies through improving the quality of generation and distribution facilities, while incorporating new demand-side options and renewable resource programs. In addition, the Company estimates it will spend $28 million in 1992, $46 million in 1993 and $74 million in 1994 on demand-side resources. Demand-side options include customer efficiency programs to reduce existing energy use and to make new customer usage more efficient. The Company is also investing in a solar research project with the Department of Energy and other utilities. Should the results of the project prove favorable, there are a number of suitable locations for a solar generation plant in the Company's service area.

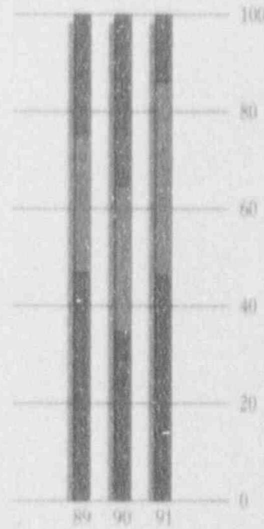
A joint plan of reorganization relating to Colorado-Ute Electric Association, Inc. ("Colorado-Ute") filed by PacifiCorp, Public Service Company of Colorado ("PSCO"), Tri-State Generation and Transmission Association, Inc. ("Tri-State") and Intermountain Rural Electric Association was approved by the bankruptcy court in February 1992. The plan provides for the Company's purchase of 243 megawatts of generating assets and fuel resources for $260 million, a 176 megawatt, 30-year contract providing for a system power sale by PacifiCorp to PSCO and a 50 megawatt seasonal exchange between the Company and Tri-State. The closing is expected to occur in April 1992.

Whenever the Company has power available and the market price is favorable, it makes off-system sales generally to other utilities. Off-system sales permit the Company to use existing and newly acquired power supplies in a manner that keeps down long-run costs for retail customers and provides added flexibility in meeting changes in customer demand.

The issuance of additional debt, preferred stock and common stock in amounts that will maintain the current capital structure will be pursued to support the Company's anticipated growth.

CAPITAL SPENDING MIX BY SEGMENT

(PERCENT)



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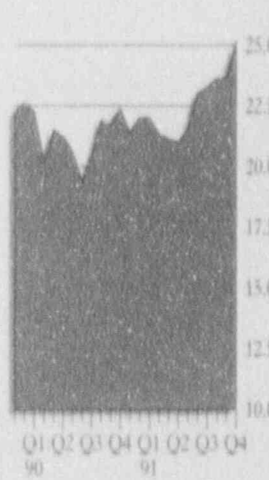
(MONTH-END IN DOLLARS)



1990 COMPARED TO 1989

♦ Electric Operations' contribution rose $5 million or 1% primarily due to a 4% increase in kilowatt-hour sales, merger savings and decreased income tax expense. These gains were offset in part by lower energy sales prices and the effects of settlement of certain nonrecurring contract-related issues in 1989.

♦ Mining and Resource Development's contribution increased $1 million or 2%. Significantly higher coal, oil and gas revenues, resulting from the continued expansion of NERCO's investment in these operations in late 1989 and 1990, accounted for a $7 million increase. The effect of this increase was offset by a $6 million after-tax gain allocated to this segment in 1989 as a result of a change in the Company's carrying value of NERCO common stock following a sale to the public.

♦ Telecommunications' contribution increased $9 million or 15% primarily due to a $12 million gain from the sale of a communications subsidiary and the sale of 31% of the capacity on the North Pacific Cable. These favorable results were partially offset by intrastate toll rate reductions, lower out-of-period interstate revenue adjustments and increased interest expense related to the North-West acquisition.

♦ Financial Services' contribution increased $4 million primarily as a result of the operations of a small manufacturing company obtained in 1990 and a $4 million gain from the sale of five airplanes from its aviation portfolio. These improvements were offset in part by a $4 million loss resulting from the sale of $480 million of assets in January 1990. The asset sale was part of a plan to downsize and reorganize Financial Services.

♦ Corporate's negative contributions were $27 million in 1990 compared to $16 million in 1989. Carrying values of noncore investments were reduced $11 million in 1990, which included the write-off of the Company's remaining equity investment in Equitec Financial Group, Inc.

LIQUIDITY AND CAPITAL RESOURCES

MILLIONS OF DOLLARS / FOR THE YEAR

	Actual			Projected		
	1989	1990	1991	1992	1993	1994
NET CASH FLOW FROM OPERATING ACTIVITIES						
Electric Operations	$ 516	$ 526	$ 740			
Mining and Resource Development	195	227	256			
Telecommunications	170	194	110			
Financial Services	237	165	157			
Other	1	20	13			
TOTAL	1,119	1,132	1,276			
CASH DIVIDENDS PAID	352	364	409			
NET	$ 767	$ 768	$ 867	$ 775-825	$ 750-800	$ 800-850
CONSTRUCTION						
Electric Operations	$ 328	$ 410	$ 504	$ 600	$ 542	$ 597
Mining and Resource Development	118	136	209	215	288	200
Telecommunications	150	196	195	124	117	114
Other	8	18	4	–	–	–
	604	760	912	939	947	911
ACQUISITIONS AND INVESTMENTS						
Electric Operations	16	49	292	260		
Mining and Resource Development	93	267	486	15		
Telecommunications	30	274	41	13		
Other	(41)	(18)	23	–		
TOTAL CAPITAL SPENDING	$ 702	$1,332	$1,754	$ 1,227	$ 947	$ 911
FINANCIAL SERVICES NET ADDITIONS TO OPERATING ASSETS	$ 290	$ (158)	$ 71	$ 27		
MATURITIES OF LONG-TERM DEBT AND CAPITAL LEASE OBLIGATIONS						
Electric Operations	$ 28	$ 32	$ 88	$ 78	$ 61	$ 82
Mining and Resource Development	95	29	40	42	384	36
Telecommunications	23	29	16	12	32	29
Financial Services	374	343	347	185	157	74
Other	1	45	23	2	2	1
	$ 521	$ 478	$ 514	$ 319	$ 636	$ 222
Other refinancings	$ 177	$ 272	$ 379			

*CASH FLOW FROM OPERATING ACTIVITIES BY SEGMENT**

(MILLIONS OF DOLLARS)

The year 1991 brought a number of changes for PacifiCorp's core businesses of Electric Operations, Mining and Resource Development and Telecommunications. Reorganizations aimed at improving efficiency and reducing costs touched many parts of the Company. Additional generation resources were acquired, improving Electric Operations' ability to serve its customers at competitive prices in the future. Acquisition of additional gas reserves increased NERCO's exposure to the effects of fluctuating commodity prices. Pacific Telecom expanded its local exchange operations and responded to the introduction of intrastate competition in Alaska.

As part of the effort to manage fuel costs and increase operating flexibility, certain coal mining operations, which had been originally formed to exclusively serve electric generating plants, were transferred from NERCO to Electric Operations. After the transfer, two-thirds of the coal consumed by the Company's ten coal-fired thermal plants is produced by mines now managed by Electric Operations.

The Company presently anticipates that capital spending in the 1992 to 1994 period will exceed net cash flow from operations less dividends by $610 million to $760 million. The Company expects to review and reduce its capital spending plans, particularly in areas affected by lower commodity prices. Financing activities, which involve the issuance of debt, preferred stock and common stock in amounts that would maintain the current capital structure, will be pursued to support the Company's anticipated growth. Estimates of future cash flows in the prior year have been revised downward to reflect lower commodity prices and deletion of $114 million of cash receipts received in 1991 rather than 1993 as anticipated.

ELECTRIC OPERATIONS

PacifiCorp seeks to position itself to meet customer growth in its service areas, estimated to be between 2-3% annually in the next three years, through utilization of a tool called "least cost planning." In this process, the Company balances the goals of supplying the customer with reliable low-cost energy from sources that are friendly to the environment while also increasing shareholder value. In a time of slower economic growth and changing regulation, the Company recognizes that efficient asset management requires greater emphasis on evaluating the contribution to earnings that each potential investment is expected to provide.

The 1991 transaction with Arizona Public Service Company not only added 350 megawatts of generation capacity at a cost of $234 million, but also added: access to low-cost surplus generation; seasonal capacity exchange from existing resources; a significant revenue stream from system sales; improved interconnections with the desert Southwest, California and Nevada wholesale markets; and access to existing combustion turbine capacity for seasonal peaks. During 1991, the Company also invested in construction consisting of: production, $102 million; transmission, $101 million; and distribution and other, $301 million.

The Company's construction and acquisition program for 1992 consists of: production, $133 million; transmission, $150 million; distribution and other, $317 million; and acquisition, $260 million. The 1992 construction program is intended to enhance system efficiencies through improving the quality of generation and distribution facilities, while incorporating new demand-side options and renewable resource programs. In addition, the Company estimates it will spend $28 million in 1992, $46 million in 1993 and $74 million in 1994 on demand-side resources. Demand-side options include customer efficiency programs to reduce existing energy use and to make new customer usage more efficient. The Company is also investing in a solar research project with the Department of Energy and other utilities. Should the results of the project prove favorable, there are a number of suitable locations for a solar generation plant in the Company's service area.

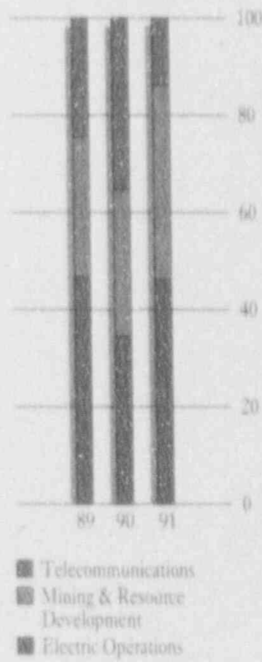
A joint plan of reorganization relating to Colorado-Ute Electric Association, Inc. ("Colorado-Ute") filed by PacifiCorp, Public Service Company of Colorado ("PSCO"), Tri-State Generation and Transmission Association, Inc. ("Tri-State") and Intermountain Rural Electric Association was approved by the bankruptcy court in February 1992. The plan provides for the Company's purchase of 243 megawatts of generating assets and fuel resources for $260 million, a 176 megawatt, 30-year contract providing for a system power sale by PacifiCorp to PSCO and a 50 megawatt seasonal exchange between the Company and Tri-State. The closing is expected to occur in April 1992.

Whenever the Company has power available and the market price is favorable, it makes off-system sales generally to other utilities. Off-system sales permit the Company to use existing and newly acquired power supplies in a manner that keeps down long-run costs for retail customers and provides added flexibility in meeting changes in customer demand.

The issuance of additional debt, preferred stock and common stock in amounts that will maintain the current capital structure will be pursued to support the Company's anticipated growth.

CAPITAL SPENDING MIX BY SEGMENT

(PERCENT)



Mining and Resource Development

At December 31, 1991, NERCO controlled 809 million tons of predominantly low-sulfur coal reserves. NERCO believes that the demand for low-sulfur coal will increase over time as utilities comply with the Clean Air Act sulfur dioxide emission limitations.

NERCO has significantly increased its investment in oil and gas properties with acquisitions of $486 million in 1991 and $249 million in 1990. Due to the low price environment during 1991, NERCO concentrated its exploration and development expenditures on drilling prospects with a high probability of successful completion, in an effort to reduce its financial risk. The level and focus of exploration activity depend on several factors, including anticipated product prices, development and production costs, availability of funding and the expectation of improving NERCO's overall future economic value.

Additions to property, plant and equipment of $209 million in 1991 included: $21 million in coal operations, primarily for mining equipment; $135 million in oil and gas operations, primarily for development of previously acquired properties; $50 million in precious metals operations for mine development and mill expansion; and $3 million in other.

NERCO's 1992 capital expenditures are expected to be: coal, $20 million; oil and gas, $140 million; precious metals, $60 million; and other, $10 million. A large portion of NERCO's planned oil and gas capital expenditures are expected to be for exploration and development of properties acquired in 1991.

Low commodities prices will continue to adversely affect NERCO's future financial performance by decreasing revenues and cash flows. Also, NERCO may further curtail production to preserve the economic value of its reserves and will be reassessing plans for capital expenditures and asset dispositions.

As a result of the sharp decline in gas prices in early 1992, NERCO expects to recognize a noncash impairment expense on its oil and gas properties in the first quarter of 1992. The amount of the write-down will be based upon NERCO's evaluation of its oil and gas properties at current prices. However, based on early-March 1992 gas prices and other information currently available, NERCO expects to recognize a first quarter after-tax asset impairment expense ranging from approximately $150 million to $175 million.

NERCO will continue to evaluate the carrying value of all its properties in light of related economic factors, including prices received for its commodities, capital expenditure plans and potential asset dispositions. NERCO's commodities prices have generally declined over recent years. Should this trend continue, the future recognition of impairment expense at certain of its properties may result.

Working capital requirements have generally been funded from internally generated cash flows, and where necessary, from borrowings under NERCO's revolving credit facilities. NERCO's management believes existing lines of credit and discretion with respect to capital, exploration and development spending will provide them with sufficient financial flexibility and capital resources to meet anticipated requirements.

Telecommunications

Pacific Telecom completed two major projects in 1991. The North Pacific Cable, a submarine fiber optic cable between the U.S. and Japan with a spur between Alaska and the lower 48 states, began carrying commercial traffic in May 1991. The total project cost to Pacific Telecom was $231 million, of which $127 million was expended in 1991. A satellite to replace Pacific Telecom's prior satellite was placed in service in July 1991 at a total cost of $85 million, including $35 million paid in 1991.

During 1991, Pacific Telecom's capital spending consisted of $69 million for local exchange operations, $107 million for long lines, including $35 million for a satellite and $41 million for the Alaska Spur of the North Pacific Cable, $3 million for cellular operations and $16 million for other communications subsidiaries. Pacific Telecom's 1992 construction expenditures are expected to be: $64 million for local exchange operations, $34 million for long lines, $15 million for cellular operations and $11 million for other communications subsidiaries.

Pacific Telecom and American Telephone and Telegraph Company ("AT&T") have agreed to transfer to AT&T the provision of interstate and international message toll and wide area telephone services currently provided in Alaska by long lines. Under the terms of the agreement, AT&T will pay Pacific Telecom a total of $330 million over five years, including $75 million for two-thirds of the capacity of the Alaska Spur. The proceeds from AT&T will be recognized over a five-year transition period to offset the revenue requirement shortfall resulting from the jurisdictional shift and the proposed regulatory treatment thereof. Over the five-year period, Pacific Telecom plans to alleviate the revenue shortfall through reductions in operating costs and rate base and from revenues generated by increasing calling volumes. As a result, the changes to be implemented through the agreement are not expected to have a significant adverse effect. The agreement is subject to regulatory approval and certain other conditions.

Pacific Telecom is considering selling the amounts receivable from AT&T in order to receive the present value of the cash payments at the time the agreement is approved. If this occurs, the proceeds will be used to reduce short-term debt.

In November 1991, Pacific Telecom announced the cancellation of an agreement, signed in January 1991, to sell its international telecommunications subsidiary. Pacific Telecom is evaluating its options related to this subsidiary and continues to record this investment, $153 million, as assets held for sale.

Pacific Telecom is seeking to expand its local exchange operations and cellular interests through acquisitions. A combination of internally generated cash and external debt would be used to fund these acquisitions. Equity issuances by Pacific Telecom may be considered if a large acquisition occurred.

FINANCIAL SERVICES

PFS' investments at December 31, 1991 declined $133 million from the prior year due to a reduction in new business activity from computer leasing and an increase in off-lease equipment reclassified to other assets primarily as a result of aircraft repossessions. The increase in nonaccrual finance assets is partially reflective of the national economic decline, most notably in the aviation industry. PFS is focusing its activities on transactions complementary to PacifiCorp's core businesses.

RATINGS CHANGES AT SUBSIDIARIES

In April 1991, Moody's Investors Service ("Moody's") downgraded the ratings for senior debt of Inner PacifiCorp, NERCO and PFS from Baa2 to Baa3 for long-term debt and from P2 to P3 for short-term debt. In March 1992, Standard & Poor's Corporation ("S&P") downgraded the senior debt ratings of Inner PacifiCorp, NERCO and PFS from BBB to BBB- for long-term debt and from A2 to A3 for short-term debt. S&P also downgraded Pacific Telecom's ratings for long-term debt from A- to BBB+. In addition, Moody's and S&P each placed NERCO's debt ratings under review for possible further downgrade. Neither Moody's nor S&P changed its ratings for PacifiCorp.

PacifiCorp believes that these changes in ratings have adversely affected the availability and cost of debt for these subsidiaries to varying degrees. While the subsidiaries continue to have access to the short and long-term debt markets, interest costs are expected to increase and any further downgradings could restrict their access to the markets.

The Companies have initiated actions to consolidate operations, divest underperforming assets and control operating costs. The recent ratings changes necessitate a comprehensive review of the strategic objectives and capital structure of Inner PacifiCorp and its subsidiaries. In addition, the Companies will continue to review the carrying value of their properties in light of relevant economic factors (including the prices received for commodities), capital expenditure plans and potential asset dispositions. If conditions warrant, related impairment expense would be recorded.

OPERATING ACTIVITIES

Net cash provided by operating activities has been PacifiCorp's primary source of liquidity. The increase in cash provided by operating activities of $144 million or 13% in 1991 was primarily due to a $114 million payment from Sacramento Municipal Utilities District for the sale of power entitlements in 1987. During 1991, 1990 and 1989, cash from operating activities less dividends paid provided for 95%, 101% and 127% of construction expenditures, respectively. The reduced construction coverage levels are a result of increased construction expenditures of $152 million, an increase of dividends paid per common share to 37.5 cents from 36 cents and an increase of 9 million common shares outstanding. The reduction of $88 million in accounts payable and accrued liabilities and a corresponding $21 million reduction in Pacific Telecom's inventory are primarily related to the North Pacific Cable transactions. Depreciation and amortization increased $49 million primarily due to the growth in NERCO's oil and gas operations.

INVESTING ACTIVITIES

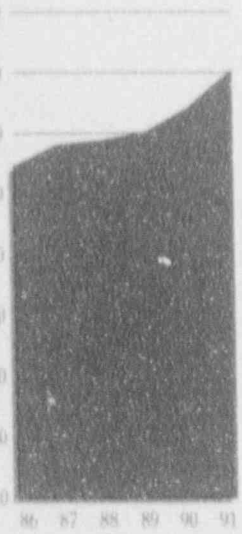
Net cash used in investing activities in 1991 of $1.7 billion was largely attributable to construction expenditures of $912 million and assets acquired of $795 million. Assets acquired included NERCO's acquisition of oil and gas assets and the Company's acquisition of a coal-fired generating plant in Arizona and purchase of equity interests in the Wyodak coal-fired generating plant.

LONG-TERM DEBT

The Companies' long-term debt, excluding Financial Services, increased $644 million during 1991, consisting primarily of issuances of medium-term notes, commercial paper and borrowings under credit agreements. The Company's debt rose $315 million. Proceeds were used to retire short-term debt, to acquire Cholla Unit 4 and to purchase equity interests in the Wyodak plant. The Company's share of the Wyodak debt, which had been recorded as a capital lease obligation, was retired with the issuance of secured medium-term notes. NERCO's debt increased $220 million to fund the acquisition of oil and gas properties, partially offset by a capital contribution of $176 million from Inner PacifiCorp, $68 million from the sale of a gas supply contract and $28 million from coal contract settlements. Pacific Telecom's debt increased $47 million to fund payments on the North Pacific Cable and a replacement satellite. Financial Services long-term debt decreased $121 million, reflecting decreased investments in finance receivables and increased short-term debt of $64 million.

	1991		1990		1989		1988		1987		1986	
											MILLIONS OF DOLLARS / DECEMBER 31	
CAPITALIZATION												
Common equity	$ 3,512	38%	$ 3,208	39%	$ 3,007	39%	$ 2,936	39%	$ 2,901	41%	$ 2,724	41%
Preferred stock	342	4	342	4	242	3	246	3	249	3	284	4
Preferred stock subject to mandatory redemption	150	2	50	1	50	1	56	1	56	1	67	1
Long-term debt and capital lease obligations	4,620	50	3,977	48	3,537	46	3,441	45	3,395	47	3,399	51
Financial Services' long-term debt	574	6	695	8	858	11	906	12	551	8	239	3
TOTAL	$ 9,198	100%	$ 8,272	100%	$ 7,694	100%	$ 7,585	100%	$ 7,152	100%	$ 6,713	100%

COMMON EQUITY
(MILLIONS OF DOLLARS)



At December 31, 1991, the Company had $400 million of First Mortgage and Collateral Trust Bonds ("FMB") registered with the Securities and Exchange Commission (the "SEC"), of which $219 million with interest rates from 7% to 8.3% were issued during January and February 1992. The proceeds were used to reduce short-term debt. In February 1992, the Company retired $205 million of FMB due 2000 to 2009 and bearing interest rates from 9 1/8% to 10 1/8%. In March 1992, the Company registered $205 million of FMB with the SEC for issuance in connection with the acquisition of assets from Colorado-Ute. An additional $45 million FMB will be issued in connection with this acquisition.

COMMON STOCK

During 1991, the Company issued an additional 9,208,631 shares, consisting of 6,050,000 shares issued to the public and 3,158,631 shares issued through the Dividend Reinvestment and K Plus Employee Savings and Stock Purchase Plans. The net proceeds of $199 million were used to repay a portion of the Company's short-term debt and for other corporate purposes. The Company registered 5,000,000 shares in August 1991, of which 1,050,000 shares were issued to the public during 1991 and 431,300 shares in January 1992. Additional shares are expected to be issued depending on market conditions and other factors.

PREFERRED STOCK

In August 1991, the Company issued $100 million of its $7.70 No Par Serial Preferred Stock, subject to mandatory redemption on August 15, 2001, for net proceeds of $98 million. The Company registered $200 million of preferred stock with the SEC in January 1992.

CAPITALIZATION LIMITS

The Company's Articles of Incorporation limit the amount of unsecured debt outstanding to the equivalent of 30% of total defined equity and secured debt. Under this provision, approximately $1.3 billion principal amount of additional unsecured debt could have been outstanding at December 31, 1991.

Issuance of the Company's FMB or preferred stock is limited by earnings coverage and fundable property provisions of the Company's mortgage indentures and Articles of Incorporation. Under these provisions and at current interest rates, approximately $2 billion of additional FMB or $2.8 billion of additional preferred stock could have been issued at December 31, 1991. However, certain of the Company's credit facilities would have limited additional borrowings to approximately $555 million.

Under the Company's credit agreement, it is an event of default if any person or group acquires 35% or more of the Company's common shares or if, during any period of 14 consecutive months, individuals who were directors of the Company on the first day of such period (and any new directors whose election or nomination was approved by such individuals and directors) cease to constitute a majority of the Board of Directors. For additional information regarding bank credit agreements, lines of credit and other short-term borrowing facilities and related limitations on borrowings, see Note 4 to Consolidated Financial Statements.

INFLATION

Due to the capital intensive nature of PacifiCorp's businesses, inflation may have a significant impact on replacement of property, acquisition and development activities and final mine reclamation. The effects of inflation on the Company's utility businesses are not significant to ongoing operations. While the rate-making process gives no recognition to the current cost of replacing plant, based upon past practices, the Company's utility businesses expect to be allowed to recover and earn on the increased cost of their net investment when replacement of facilities actually occurs. The majority of NERCO's long-term coal contracts provide for the adjustment over time of certain components of revenue either through indices, formulas or

direct pass-through of costs. These long-term contract provisions help mitigate some of the effects of increasing costs. Prices for precious metals, oil and gas may fluctuate dramatically over short periods of time due to the rate of inflation and other factors not subject to control by NERCO.

ACCOUNTING FOR INCOME TAXES

The Company has not yet adopted the Statement of Financial Accounting Standards ("FAS") 109, "Accounting for Income Taxes," which was issued in February 1992 and supersedes FAS 96. The statement requires companies to use the liability method to reflect the tax effect of differences between taxable income and pretax financial income and to adjust deferred tax liabilities or assets for changes in tax rates in the period a new law is enacted. Due to the primarily regulated nature of the Company's businesses, adoption of this statement is not expected to have a material effect on its results of operations. The Company's unrecorded deferred tax liabilities and corresponding future receivables from customers will be recorded upon adoption of this statement. The Companies are considering early adoption of this statement, which is required to be adopted no later than 1993.

POSTRETIREMENT BENEFITS OTHER THAN PENSIONS

The Financial Accounting Standards Board has issued FAS 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions." This statement will require accrual of postretirement benefits, such as health care benefits, during the years an employee provides services. Effective for employees retiring after December 31, 1991, the Companies have revised their retiree benefit programs. The revisions include limiting the amount of subsidy provided for medical benefits, limiting the amount of subsidized life insurance benefits and changing the way the medical plans integrate with medicare for all retired employees. Based upon the most recent actuarial studies, it is estimated the Companies have a transition obligation liability of $240 million. This statement allows for either immediate recognition of this transition obligation liability or amortization of that liability over a period of up to 20 years. The Company may seek regulatory approval to defer the difference between net periodic cost and costs incurred, for future collection from ratepayers. The Company has not decided which options it will use for recognition of the liability. The Companies are considering early adoption of this statement, which is required to be adopted no later than 1993.

ENVIRONMENTAL ISSUES

PacifiCorp is committed to preserving the natural environment and resources wherever the Companies operate to assure the long-term health and economic vitality of the areas where they conduct business. Concern for the environment is a major force shaping the Company's strategic goals and an integral part of the least-cost planning analysis.

During 1991, the Environmental Protection Agency (the "EPA") and the states began the process of implementing the newly amended Clean Air Act (the "Act"). Through the ongoing rulemaking process, the EPA will issue regulations to implement the Act's acid rain provisions; approve and oversee a program of state-administered operating permits; establish a national emissions allowance trading system; and require monitoring of plant emissions.

The Company's generating plants burn low-sulphur coal. Major construction expenditures have already been made at many plants to reduce sulphur dioxide emissions, but some additional expenditures may be necessary. The plant most affected by the Act is the Centralia plant in Washington. The Company is studying how to bring this plant into compliance in a cost-effective manner by the required January 1, 2000 compliance deadline. Since the Act does not mandate the use of a particular emission reduction technology, the Company will have the flexibility to select from several possible compliance strategies.

The greenhouse effect is believed to occur when certain trace gases in the atmosphere trap radiant heat. Leading scientists and climatologists are currently debating whether the buildup of these gases causes warming of the earth's climate; however, no consensus has yet been reached. Regardless of the outcome of the debate, the Company expects to search for cost-effective ways of offsetting future carbon dioxide emissions.

Several Superfund sites have been identified where the Companies have been or may be designated as potentially responsible parties. In such cases, the Companies review the circumstances and, where possible, negotiate with other potentially responsible parties to provide funds for clean-up and, if necessary, monitoring activities. In addition, insurance resources are reviewed and investigated. Costs associated with the disposition of these matters are not expected to be material to PacifiCorp's consolidated results of operations.

ELECTRIC OPERATIONS

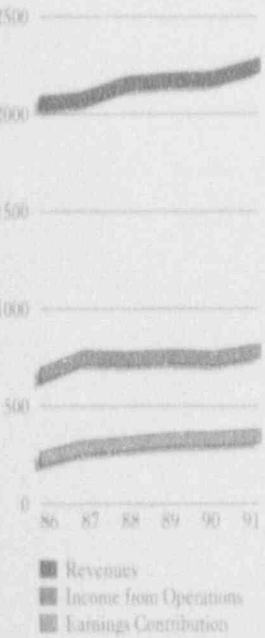
MILLIONS OF DOLLARS / FOR THE YEAR

	1991	1990	1989	1988	1987	1986	1991 to 1990 Percentage Comparison	5-Year Compound Annual Growth
REVENUES								
Residential	$ 663.8	$ 646.6	$ 646.4	$ 651.1	$ 637.4	$ 632.9	3%	1%
Commercial	517.4	509.0	517.3	526.5	523.4	505.0	2	–
Industrial	674.9	673.8	670.6	670.2	646.0	635.4	–	1
Other	34.2	34.3	38.2	42.6	45.3	43.3	–	(5)
General sales	1,890.3	1,863.7	1,872.5	1,890.4	1,852.1	1,816.6	1	1
Sales for resale – firm	264.7	209.9	190.3	150.8	105.6	137.7	26	14
Sales for resale – nonfirm	59.9	78.4	79.0	87.4	85.9	66.0	(24)	(2)
Sales to other utilities	324.6	288.3	269.3	238.2	191.5	203.7	13	10
Other	36.9	32.5	33.9	31.0	35.2	35.5	14	1
TOTAL	2,251.8	2,184.5	2,175.7	2,159.6	2,078.8	2,055.8	3	2
EXPENSES								
Depreciation and amortization	256.0	235.4	227.8	231.4	230.4	212.8	9	4
Operations, maintenance and other	1,212.8	1,204.1	1,192.9	1,183.4	1,096.6	1,186.8	1	–
TOTAL	1,468.8	1,439.5	1,420.7	1,414.8	1,327.0	1,399.6	2	1
INCOME FROM OPERATIONS	783.0	745.0	755.0	744.8	751.8	656.2	5	4
NET INCOME	373.3	356.1	350.8	329.7	313.6	265.6	5	7
PREFERRED DIVIDEND REQUIREMENT	26.7	21.9	21.2	20.7	22.6	38.6	22	(7)
EARNINGS CONTRIBUTION[(a)]	$ 346.6	$ 334.2	$ 329.6	$ 309.0	$ 291.0	$ 227.0	4	9
Identifiable assets	$ 7,665	$ 7,027	$ 6,728	$ 6,459	$ 6,480	$ 6,382	9	4
Capital spending	$ 796	$ 459	$ 344	$ 265	$ 286	$ 359	73	17
Number of employees	9,339[(b)]	8,903[(b)]	8,843	9,092	9,376	9,861	5	(1)
OPERATING EXPENSES								
Fuel	$ 424.1	$ 403.5	$ 397.4	$ 412.1	$ 398.8	$ 360.3	5	3
Fuel adjustment	$ –	$ –	$ –	$ –	$ –	$ 85.7	–	–
Power purchased	$ 176.4	$ 149.6	$ 133.3	$ 81.1	$ 57.5	$ 82.3	18	16
Other operations	$ 249.7	$ 259.5	$ 271.1	$ 295.7	$ 242.5	$ 253.1	(4)	(1)
Maintenance	$ 146.6	$ 151.2	$ 158.7	$ 165.0	$ 135.8	$ 152.4	(3)	(1)
Administrative and general	$ 119.1	$ 139.5	$ 135.7	$ 136.7	$ 159.8	$ 155.5	(15)	(5)
Depreciation and amortization	$ 256.0	$ 235.4	$ 227.8	$ 231.4	$ 230.4	$ 212.8	9	4
Taxes other than income taxes	$ 96.9	$ 100.8	$ 96.7	$ 92.8	$ 102.2	$ 92.5	(4)	1
Income taxes – utility	$ 180.8	$ 169.7	$ 189.1	$ 184.4	$ 223.9	$ 199.8	7	(2)
Income taxes – other	$ (6.5)	$ (7.9)	$ (.9)	$ (9.9)	$ (8.7)	$ (29.2)	18	26
INTEREST CAPITALIZED								
AFUDC – equity	$ 7.9	$ 8.4	$ 10.5	$ 7.2	$ 9.2	$ 17.6	(6)	(15)
AFUDC – debt	$ 7.9	$ 14.0	$ 12.2	$ 7.7	$ 7.9	$ 15.2	(44)	(12)
ENERGY SALES *(Millions of kwh)*								
Residential	11,354	10,990	10,765	10,491	10,100	10,101	3	2
Commercial	9,416	9,101	8,803	8,666	8,330	8,024	3	3
Industrial	19,322	19,507	18,878	18,085	16,729	15,499	(1)	5
Other	692	690	750	711	725	676	–	–
General sales	40,784	40,288	39,196	37,953	35,884	34,300	1	4
Sales for resale – firm	7,349	6,147	5,441	4,331	3,450	4,514	20	10
Sales for resale – nonfirm	2,946	3,323	3,118	4,066	4,683	3,663	(11)	(4)
Sales to other utilities	10,295	9,470	8,559	8,397	8,133	8,177	9	5
TOTAL	51,079	49,758	47,755	46,350	44,017	42,477	3	4

(a) Does not reflect elimination of interest on intercompany borrowing arrangements and includes income taxes on a separate-company basis.

(b) The transfer of the Jim Bridger and Glenrock operations from Mining and Resource Development on December 31, 1991 and the purchase of a controlling interest in the Centralia mine in July 1990 added 561 employees and 755 employees in 1991 and 1990, respectively.

ELECTRIC OPERATIONS
(MILLIONS OF DOLLARS)



FACTORS INFLUENCING EARNINGS

PacifiCorp generates power at coal-fired and hydroelectric plants and relies on a transmission and distribution network to serve retail and wholesale customers throughout the Pacific Northwest, Rocky Mountain and desert Southwest regions. PacifiCorp also offers retail customers a variety of services encouraging energy efficiency.

Earnings depend on efficiently and economically balancing power-supply resources with customer demand; utility commission practices; regional economic conditions; retention of municipal franchises; weather variations affecting customer usage and hydroelectric production; fuel costs; wholesale firm power marketing success; and the cost of debt and equity.

PRICING STRATEGY

PacifiCorp is committed to maintaining stable prices, with any price increases made after 1992 limited to the rate of inflation. From January 1, 1988 through December 31, 1991, the Company reduced prices paid by retail customers by $206 million, or 11% on an annualized basis. These decreases were made possible by power supply coordination, insurance savings, lower interest rates and work force reductions. Future cost reductions are expected to be realized through process improvement efficiencies, but are not expected to be on the scale of those experienced over this period.

1991 COMPARED TO 1990

Revenues increased $67 million or 3%.

♦ General sales revenues increased $27 million or 1% primarily due to increases in residential and commercial customers and customer usage, partially offset by reduced industrial kilowatt-hour sales volume to Northwest wood products customers.

♦ Sales for resale to other utilities increased $36 million or 13% (kilowatt-hour sales increased 9%) due to a $51 million increase in long-term firm contract sales. The increase was offset in part by decreased secondary sales due to competition from increased energy available from Bonneville Power Administration ("BPA") in early 1991 and from gas-fired generating resources as a result of low natural gas prices in 1991.

Operating expenses increased $29 million or 2%.

♦ Purchased power expense increased $27 million or 18% due to increased purchases of available lower cost hydropower from BPA, higher rates for certain firm purchase contracts and increased BPA rates effective September 1991.

♦ Fuel expense increased $21 million or 5% due to increased coal costs and thermal generation.

♦ Other operations expense decreased $10 million or 4% primarily due to reductions of $18 million in rent expense for the previously leased Wyodak plant and $3 million in allowance for doubtful accounts, partially offset by $12 million for discontinuance in 1990 of credits allowed under the Utah energy balancing account.

♦ Maintenance expense decreased $5 million or 3% due to the timing of transmission, distribution and substation maintenance.

♦ Administrative and general expense decreased $20 million or 15% due to lower reserve requirements for insurance and decreased payroll and employee benefit costs resulting from work force reductions.

♦ Depreciation and amortization expense increased $21 million or 9% primarily due to the acquisitions of interests in the Wyodak and Cholla Unit 4 generating plants.

Earnings contribution increased $12 million or 4%.

♦ Income from operations increased $38 million or 5%.

♦ Interest expense increased $14 million or 6% primarily due to increased debt outstanding due in part to the acquisitions of interests in the Cholla Unit 4 and Wyodak plants, partially offset by the effect of retirement of higher interest rate debt.

♦ Interest capitalized decreased $7 million or 29% due to reduced construction in progress and a lower cost of capital.

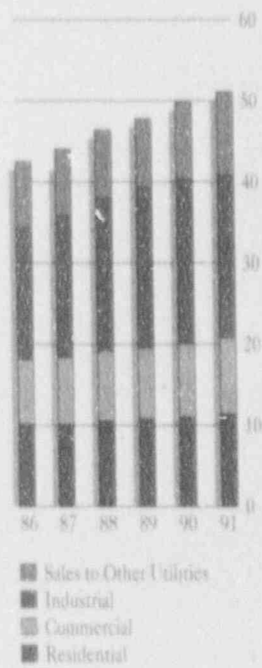
♦ Other expense decreased $12 million primarily due to decreased losses from cogeneration projects as a result of improvements in operating results and a 1990 valuation adjustment loss, partially offset by the effects of a $5 million settlement in 1991 of a long-standing dispute over treatment of investments in terminated nuclear projects.

♦ Provision for income taxes increased $13 million or 8% due to increased taxable income and the net effect of favorable deferred tax adjustments of $12 million in 1991 compared to $18 million in 1990, partially offset by a $5 million favorable tax settlement in 1991.

♦ Preferred dividend requirements increased $5 million or 22% due to issuances of $100 million of preferred stock in both October 1990 and August 1991, partially offset by lower rates for auction rate preferred stock.

KILOWATT-HOUR SALES BY CUSTOMER SEGMENT

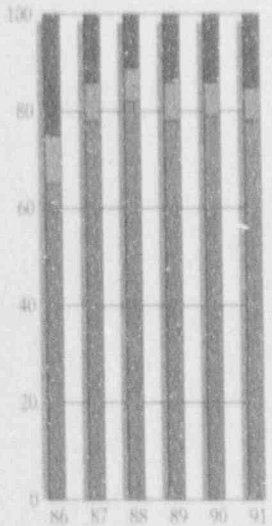
(BILLIONS OF KILOWATT-HOURS)



ELECTRIC OPERATIONS

ENERGY SOURCE

(PERCENT)



FOR THE YEAR

		1991	1990	1989	1988	1987	1986	1991 to 1990 Percentage Comparison	5-Year Compound Annual Growth
ENERGY SOURCE *(%)*									
Coal		78	78	78	81	77	64	–%	4%
Hydro		6	7	8	7	8	10	(14)	(10)
Other		1	1	–	1	1	1	–	–
Purchase and exchange contracts		15	14	14	11	14	25	7	(10)
NUMBER OF CUSTOMERS *(Thousands)*									
Residential		1,093	1,076	1,060	1,047	1,037	1,029	2	1
Commercial		146	142	142	140	138	136	3	1
Industrial		16	15	13	12	11	12	7	6
Other		3	3	3	3	3	2	–	8
TOTAL		1,258	1,236	1,218	1,202	1,189	1,179	2	1
Residential average annual usage *(kwh)*		10,464	10,283	10,209	10,070	9,780	9,863	2	1
Residential average annual revenues per customer *(Dollars)*		612	605	613	625	617	618	1	–
Residential revenue per kwh *(Cents)*		5.8	5.9	6.0	6.2	6.3	6.3	(2)	(2)
MILES OF LINE									
Transmission		14,900	14,900	14,700	14,600	14,600	14,600	–	–
Distribution		44,400	44,200	44,200	44,100	44,100	43,600	–	–
SYSTEM PEAK DEMAND *(Megawatts)*									
Net system load[(a)]	– summer	6,405	6,407	5,978	5,939	5,626	5,407	–	3
	– winter	7,019	7,623	6,875	6,267	6,246	5,825	(8)	4
Total firm load[(b)]	– summer	7,639	7,109	6,741	6,503	6,088	6,092	7	5
	– winter	7,710	8,417	7,559	6,833	6,725	6,513	(8)	3
SYSTEM CAPABILITY *(Megawatts)*[(c)]									
	– summer	9,629	8,551	8,570	8,923	8,465	8,434	13	3
	– winter	9,316	9,141	8,948	8,831	8,419	8,438	2	2

(a) Excludes off-system sales for resale. (b) Includes off-system firm sales for resale. (c) Owned and contractual generating capability at the time of system firm peak.

ELECTRIC OPERATIONS' COAL ACTIVITIES

In addition to coal activities by Mining and Resource Development, Electric Operations has interests in coal mines that supply coal exclusively to affiliated electric generating facilities. Coal information, included in Electric Operations, is as follows:

MILLIONS OF DOLLARS / FOR THE YEAR

	1991	1990	1989	1988	1987	1986	1991 to 1990 Percentage Comparison	5-Year Compound Annual Growth
Fuel expense *(Revenue equivalent)*	$ 247.1	$ 222.2	$ 211.4	$ 219.3	$ 196.6	$ 206.7	11%	4%
Depreciation and depletion	22.5	20.0	17.2	16.2	16.0	14.4	13	9
Capital spending	34.6	80.9	26.3	18.1	23.4	34.5	(57)	–
Identifiable assets	413.9[(a)]	291.5	237.0	242.7	223.2	224.9	42	13
RESERVES AND PRICE INFORMATION *(Thousands of tons)*								
Proven and probable reserves	440,000[(a)]	279,000	311,000	318,000	341,000	350,000	58	5
Amounts mined	14,568	13,200	9,200	8,900	7,800	6,300	10	18
Average transfer price per ton	$ 17	$ 17	$ 18	$ 17	$ 20	$ 22	–	(5)

(a) Includes $118 million of assets and 174 million tons of proven and probable reserves at the Jim Bridger mine which were transferred from Mining and Resource Development on December 31, 1991.

1990 COMPARED TO 1989

Revenues increased $9 million.

♦ General sales revenues decreased $9 million primarily due to the effect of price reductions, partially offset by increased residential, commercial and industrial kilowatt-hour sales volume, decreased regional credits and new customers.

♦ Sales for resale to other utilities increased $19 million or 7% (kilowatt-hour sales increased 11%) primarily due to new firm power contracts. Generally improved hydro levels and increased thermal generation provided a greater amount of energy to meet the 1990 demand.

Operating expenses increased $19 million or 1%.

♦ Purchased power expense increased $16 million or 12% primarily due to increased prices for energy from cogeneration and other new sources, reduced regional credits and a 2% increase in kilowatt-hours purchased. Decreased credits allowed under the Regional Act increased purchased power expense and general sales revenue $6 million each, with no effect on income from operations.

♦ Fuel expense increased $6 million or 2% due to increased thermal generation resulting from increased energy sales, partially offset by a lower unit cost of coal.

♦ Other operations expense decreased $12 million or 4% primarily due to $6 million of nonrecurring adjustments in 1989 relating to the Utah energy balancing account and a $4 million reduction in 1990 advertising and other miscellaneous sales expenses.

♦ Maintenance expense decreased $8 million or 5% due to decreases of $8 million primarily resulting from timing of major overhauls of thermal plants and $2 million relating to distribution plant, partially offset by increased expense for maintenance of administrative facilities.

♦ Administrative and general expense increased $4 million or 3% primarily due to increased employee benefit costs.

♦ Depreciation and amortization expense increased $8 million or 3% primarily due to increased investment in utility plant.

♦ Taxes other than income taxes increased $4 million or 4% primarily due to increased property taxes.

Earnings contribution increased $5 million or 1%.

♦ Income from operations decreased $10 million or 1%.

♦ Interest expense decreased $9 million or 3% primarily due to a $7 million reversal of accrued interest on previously settled coal royalty issues, decreased amortization of refinancing costs and lower interest rates, offset in part by higher average debt balances.

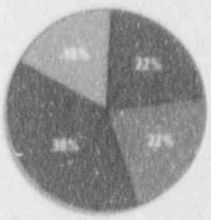
♦ Losses from equity and other investments increased $7 million primarily due to write-downs of investments in cogeneration projects.

♦ Other income decreased $11 million primarily due to the 1989 effects of the resolution of uncertainties concerning a power exchange agreement and the recognition of income for coal settlement liabilities, partially offset by a $7 million gain in 1990 relating to the early payments of refunds due customers.

♦ Provision for income taxes decreased $26 million or 14% primarily due to an $18 million adjustment to deferred taxes and decreased taxable income. In prior years, Pacific Power computed deferred taxes generally in accordance with the requirements of its primary jurisdiction. In 1990, Pacific Power adopted a jurisdictional allocation approach for computing deferred taxes and Electric Operations recorded the resulting adjustment.

KILOWATT-HOUR SALES BY CUSTOMER SEGMENT

(PERCENT)



1991

- Residential
- Commercial
- Industrial
- Sales to Other Utilities

MINING & RESOURCE DEVELOPMENT

MILLIONS OF DOLLARS / FOR THE YEAR

	1991	1990	1989	1988	1987	1986	1991 to 1990 Percentage Comparison	5-Year Compound Annual Growth
REVENUES								
Coal/unaffiliated customers	$ 449.6	$ 418.2	$ 350.7	$ 386.5	$ 391.8	$ 423.5	8%	1%
Coal/affiliated customers	80.9	83.3	84.3	84.0	93.1	88.7	(3)	(2)
Oil and gas	297.7	214.8	151.1	88.9	14.1	4.5	39	131
Precious metals and other	91.4	111.4	124.7	102.4	133.3	78.0	(18)	3
TOTAL	919.6	827.7	710.8	661.8	632.3	594.7	11	9
EXPENSES								
Depreciation, depletion and amortization	194.5	137.0	98.7	77.5	54.6	41.9	42	36
Operations, maintenance and other	540.7	523.2	477.9	435.1	457.1	421.1	3	5
TOTAL	735.2	660.2	576.6	512.6	511.7	463.0	11	10
INCOME FROM OPERATIONS	184.4	167.5	134.2	149.2	120.6	131.7	10	7
NET INCOME	83.1	80.1	68.1	66.5	60.1	57.5	4	8
Minority interest and other	15.4	15.1	9.9	6.7	5.9	5.5	2	23
Stock sale gain	–	–	5.8	–	–	–	–	–
EARNINGS CONTRIBUTION[a]	$ 67.7	$ 65.0	$ 64.0	$ 59.8	$ 54.2	$ 52.0	4	5
Identifiable assets	$ 1,969	$ 1,590	$ 1,282	$ 1,172	$ 856	$ 775	24	21
Capital spending	$ 695	$ 403	$ 211	$ 378	$ 156	$ 82	72	53
Number of employees	1,712[b]	2,206	2,266	2,370	2,231	2,144	(22)	(4)
COAL *(Tons)*								
Proven and probable reserves *(Millions)*	809[b]	1,018	997	1,000	1,001	1,023	(21)	(5)
Sold/Produced *(Thousands)*	28,142	27,976	24,550	23,767	24,857	23,168	1	4
Sold/Purchased for resale *(Thousands)*	7,850	8,126	7,408	7,538	5,877	6,157	(3)	5
Average sales price per ton	$ 14.31	$ 14.25	$ 13.99	$ 14.24	$ 16.47	$ 18.07	–	(5)
GAS *(Millions of cubic feet)*								
Proven reserves	606,346	425,471	321,251	309,657	58,883	8,819	43	133
Sold/Produced	103,683	69,239	51,730	26,738	4,538	1,327	50	139
Purchased for resale	15,214	13,924	13,989	12,473	–	–	9	*
Average sales price per mcf	$ 1.53	$ 1.83	$ 1.85	$ 1.75	$ 1.71	$ 1.73	(16)	(2)
GOLD *(Thousands of ounces)*								
Proven and probable reserves	2,606	1,789	1,949	1,741	1,402	950	46	22
Amounts mined	180	181	177	143	146	80	(1)	18
Sold	186	184	199	139	153	110	1	11
Average sales price per ounce	$ 410	$ 422	$ 420	$ 455	$ 428	$ 372	(3)	2
SILVER *(Thousands of ounces)*								
Proven and probable reserves	24,160	25,223	54,744	48,875	42,897	43,101	(4)	(11)
Amounts mined	3,439	6,258	6,266	4,860	5,003	4,117	(45)	(4)
Sold	3,363	7,042	6,100	5,015	9,094	5,230	(52)	(8)
Average sales price per ounce	$ 4.00	$ 4.32	$ 5.74	$ 6.92	$ 6.96	$ 6.69	(7)	(10)

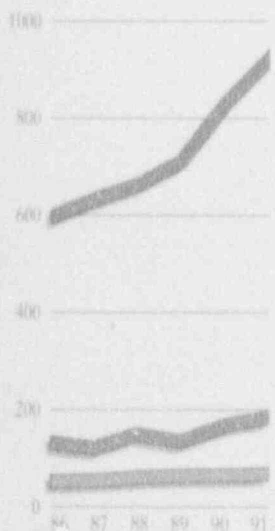
* Not a meaningful number

(a) Does not reflect elimination of interest on intercompany borrowing arrangements and includes income taxes on a separate-company basis.

(b) On December 31, 1991, 561 employees of the Jim Bridger and Glenrock coal mines and 174 million tons of proven and probable reserves were transferred to Electric Operations.

MINING & RESOURCE DEVELOPMENT

(MILLIONS OF DOLLARS)



■ Revenues
■ Income from Operations
■ Earnings Contribution

FACTORS INFLUENCING EARNINGS

NERCO is a natural resource company with interests in coal mining, oil and gas production and exploration and precious metals mining and exploration. Prices for these commodities are cyclical and fluctuate on the domestic and world markets.

Low 1991 natural gas and silver prices significantly affected NERCO's 1991 operating results. The sharp decline in natural gas prices continued into 1992; as a result NERCO expects to post a net loss in the first quarter of 1992 and expects to take a write-down on certain properties. See page 28.

1991 COMPARED TO 1990

Revenues increased $92 million or 11%.

♦ Coal revenues increased $29 million or 6% primarily due to $28 million in revenue from a coal contract settlement.

♦ Oil and gas revenues increased $83 million or 39% due to the sale of a long-term gas supply contract, which contributed $58 million, and a 50% increase in production from properties acquired in 1990 and 1991. The increases were offset in part by a 16% decrease in the average effective sales price for gas. During 1991, gas prices dropped to their lowest levels since 1979.

♦ Precious metals revenues decreased $20 million or 18% due to decreased silver sales volumes and lower silver and gold prices. Silver prices reached a 17-year low in the fourth quarter of 1990 and have remained low.

Operating expenses increased $75 million or 11%.

♦ Operations and maintenance expense increased $18 million or 4% due to increased oil and gas production and a $15 million reduction in the carrying value of assets related to a coal contract settlement, partially offset by lower silver sales volumes.

♦ Administrative and general expense increased $4 million or 9% primarily due to an $8 million 1991 restructuring charge relating to the consolidation of subsidiary offices which is expected to reduce future operating costs.

♦ Depreciation, depletion and amortization expense increased $58 million or 42% primarily due to higher depletion resulting from increased oil and gas production and the higher cost of purchased oil and gas reserves and reserve development.

Earnings contribution increased $3 million or 4%.

♦ Income from operations increased $17 million or 10%. The sale of a long-term gas supply contract in 1991 and the termination of the coal contract effective in July 1992 are expected to lower NERCO's 1992 operating income by $10 million.

♦ Interest expense increased $18 million or 36% primarily due to higher average debt balances as a result of oil and gas acquisitions, offset in part by lower interest rates and a $3 million reduction relating to the settlement of income tax audit issues.

♦ Interest capitalized increased $6 million due to increased oil and gas assets qualifying for interest capitalization.

♦ Provision for income taxes was virtually unchanged due to a 1991 favorable tax settlement of $5 million. NERCO and the Company have filed a protest relating to certain proposed adjustments with the State of Montana. See Note 9 to the Consolidated Financial Statements.

1990 COMPARED TO 1989

Revenues increased $117 million or 16%.

♦ Coal revenues increased $67 million or 15% due to increased volume sold and a higher average sales price. The increase in average sales price was due to increased sales of higher priced coal from central Appalachian operations acquired in late 1989 and contract price escalations, partially offset by increased volume of lower priced western coal.

♦ Oil and gas revenues increased $64 million or 42% primarily due to 1989 and 1990 acquisitions, ongoing development efforts and a $7 million gain from the sale of a working interest.

♦ Precious metals revenues decreased $13 million or 11% due to decreased average silver sales prices and decreased gold sales volumes, partially offset by increased silver sales volumes.

Operating expenses increased $84 million or 15%.

♦ Operations and maintenance expense increased $38 million or 10% due to growth from properties acquired in 1990, partially offset by a $9 million reclamation liability reduction at a gold mine and the closure of two noncore operations in 1989.

♦ Depreciation, depletion and amortization expense increased $38 million or 39% primarily due to increased oil and gas production and coal mining equipment additions.

♦ Taxes other than income taxes increased $4 million due to increased coal, oil and gas production.

Earnings contribution increased $1 million or 2%.

♦ Income from operations rose $33 million or 25%. Oil and gas increases were the result of significant acquisitions in 1989 and 1990. Offsetting these gains was an operating loss of $6 million recorded in December 1990 when NERCO sold 4.9 million ounces of silver at an average price of $3.99 per ounce.

♦ Interest expense increased $18 million or 53% primarily due to the addition of debt to fund 1990 acquisitions.

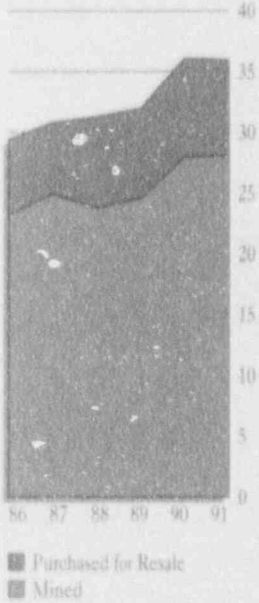
♦ Interest capitalized increased $3 million primarily due to gold and silver mine expansion and developmental oil and gas drilling.

♦ Income tax expense increased $7 million primarily due to increased taxable income.

♦ Minority interest and other expense increased $5 million primarily due to NERCO's increased earnings and the public sale of NERCO common stock in August 1989, which increased minority ownership from 11% to 18%.

♦ In 1989, a $6 million after-tax gain was allocated to this segment as a result of a change in the Company's carrying value of NERCO's common stock following a sale to the public.

COAL SALES
(MILLIONS OF TONS)



TELECOMMUNICATIONS

MILLIONS OF DOLLARS / FOR THE YEAR	1991	1990	1989	1988	1987	1986	1991 to 1990 Percentage Comparison	5-Year Compound Annual Growth
REVENUES[a]								
Local network service	$ 68.4	$ 57.7	$ 55.4	$ 50.1	$ 48.0	$ 46.8	19%	8%
Network access service	209.5	186.8	170.0	160.5	155.8	165.0	12	5
Long distance network service	244.8	214.4	231.8	229.8	201.9	233.3	14	1
Private line service	66.0	60.1	58.3	61.3	68.2	61.1	10	2
Sales of cable capacity	30.9	83.2	–	–	–	–	(63)	*
Other	104.8	80.7	62.2	58.3	53.3	43.1	30	19
TOTAL	724.4	682.9	577.7	560.0	527.2	549.3	6	6
EXPENSES[a]								
Depreciation and amortization	117.3	101.9	98.5	93.6	90.6	89.0	15	6
Operations, maintenance and other	447.5	426.8	345.4	349.9	305.6	321.3	5	7
TOTAL	564.8	528.7	443.9	443.5	396.2	410.3	7	7
INCOME FROM OPERATIONS	159.6	154.2	133.8	116.5	131.0	139.0	4	3
NET INCOME	81.1	90.2	73.5	58.4	44.6	44.2	(10)	13
Minority interest, allocated Corporate interest charges and other	11.8	18.1	10.7	8.2	8.8	10.3	(35)	3
EARNINGS CONTRIBUTION[b]	$ 69.3	$ 72.1	$ 62.8	$ 50.2	$ 35.8	$ 33.9	(4)	15
Identifiable assets	$ 1,674	$1,703	$1,192	$1,206	$1,128	$1,171	(2)	7
Capital spending	$ 236	$ 470	$ 180	$ 170	$ 90	$ 156	(50)	9
Number of employees	3,821	4,161	3,403	4,215	3,626	3,749	(8)	–
Telephone access lines *(Thousands)*	357	340	253	240	230	225	5	10
Long lines originating conversation minutes *(Millions)*	616	594	550	472	433	433	4	7

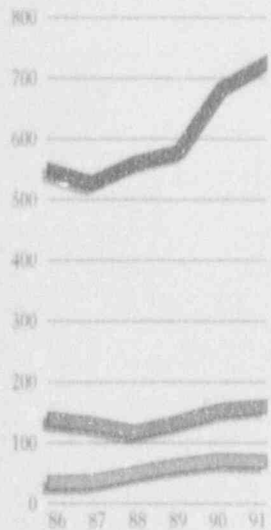
* Not a meaningful number.

(a) Certain revenue and expense amounts relating to access charges have been reclassified. These reclassifications had no effect on previously reported net income.

(b) Does not reflect elimination of interest on intercompany borrowing arrangements and includes income taxes on a separate-company basis.

TELECOMMUNICATIONS

(MILLIONS OF DOLLARS)



FACTORS INFLUENCING EARNINGS

Pacific Telecom provides voice, data, video and other services through long lines and local exchange operations. Pacific Telecom operates, maintains and sells capacity on the North Pacific Cable. Pricing for services is both rate regulated and market driven. Long-term profitability in franchised service territories is influenced by technology, efficiency of operations and cost of capital. Pacific Telecom's revenues for 1991 were derived 50% from long lines, 41% from local exchange companies, 6% from cable and backhaul capacity sales and related cable services and 1% from cellular operations. Long distance network service revenues will be affected in future years as a result of the agreement to transfer interstate and international message toll and wide area telephone services to AT&T. See page 28 for additional information.

1991 COMPARED TO 1990

Revenues increased $42 million or 6%.

♦ Local network service revenues increased $11 million or 19%, due to the acquisition of North-West in August 1990, which added 64,500 access lines and $8 million in revenues, and the effect of a 5% increase in access lines in areas already served.

♦ Network access service revenues, which are charges to common carriers for access to local exchange companies' networks, increased $23 million or 12%. The North-West acquisition added $11 million. The remainder was related to increases in operating expenses used in setting access rates.

♦ Long distance network service revenues increased $30 million or 14% primarily due to higher out-of-period revenue adjustments, rate base growth and the revenue effects of increased expenses, partially offset by the effects of competition and intrastate rate decreases in Alaska of $11 million and $6 million, annually, in July 1991 and March 1990, respectively.

♦ Sales of cable capacity on the North Pacific Cable decreased $52 million. Approximately 41% of cable capacity had been sold to nonaffiliated entities at December 31, 1991, 31% in 1990 and 10% in 1991.

♦ Other revenues increased $24 million or 30% due to the acquisition of North-West, revenues from transportable earth stations and other services provided in Saudi Arabia and maintenance services on the North Pacific Cable.

Operating expenses increased $36 million or 7%.

♦ The North-West acquisition added $26 million of expense: operations and maintenance, $10 million; administrative and general, $6 million; depreciation and amortization, $8 million; and taxes other than income taxes, $2 million.

♦ Operations expense decreased $37 million as more cable capacity was sold in 1990. The decrease was offset in part by increased sales of backhaul capacity in 1991.

♦ Operations and maintenance expenses increased an additional $37 million primarily due to access line growth, leasing of transponders on an interim satellite, services and equipment provided in Saudi Arabia, maintenance of the North Pacific Cable, increased cellular maintenance and customer operations expense resulting from increased cellular operations and increased advertising expense. The increases were offset in part by decreases related to completion of the service life of the prior satellite and lower telemetry, tracking and control services for the new satellite.

♦ Depreciation and amortization expense increased an additional $7 million as a result of increased depreciable property resulting from the Alaska Spur and cellular operations.

Earnings contribution decreased $3 million or 4%.

♦ Income from operations increased $5 million or 4%.

♦ Interest expense increased $7 million or 15% primarily due to debt incurred to fund the acquisition of North-West and expenditures for construction and cable inventory, offset in part by lower average interest rates in 1991.

♦ Other income increased $10 million due to pretax gains from sales of communications subsidiaries and cellular interests of $28 million in 1991 compared to $18 million in 1990.

♦ Other expense increased $29 million primarily due to $20 million from valuation adjustments relating to international operations and other noncore investments.

♦ Income taxes decreased $15 million or 38% due to the favorable resolution of tax audit issues and lower taxable income.

1990 COMPARED TO 1989

Revenues increased $105 million or 18%.

♦ Local network service revenues increased $2 million or 4% due to $6 million of revenue added by the North-West acquisition and internal access line growth of 7%, offset in part by lower revenues caused by the sale of a Gulf Coast satellite-based cellular telephone subsidiary.

♦ Network access service revenues increased $17 million or 10%. An increase of $9 million resulted from the acquisition of North-West and the remainder was related to increased operating expenses used in setting interstate access rates.

♦ Long distance network service revenues decreased $17 million or 8% primarily due to lower out-of-period revenue adjustments for long lines in 1990 and the effects of Alaska intrastate rate decreases in 1990 and 1989.

♦ Sales to nonaffiliates of 31% of the total capacity on the North Pacific Cable increased revenues $83 million.

♦ Other revenues increased $19 million or 30% mainly due to the North-West acquisition and increased billing and collection and telephone directory revenues.

Operating expenses increased $85 million or 19%.

♦ Operations expense increased $72 million or 42% primarily due to the $53 million cost of cable capacity sold and expenses of North-West's printing and publishing operations. Operating expense also rose due to increases in advertising expenses for long lines and local exchange access line growth.

♦ Administrative and general increased $5 million or 8% due to costs related to the development of customer support and billing software and the acquisition of North-West, offset in part by the sale of a Gulf Coast subsidiary.

♦ Depreciation and amortization increased $3 million or 4% due to the acquisition of North-West and a long lines depreciation rate increase, offset in part by the sale of a subsidiary.

Earnings contribution increased $9 million or 15%.

♦ Income from operations increased $20 million or 15%.

♦ Interest expense increased $14 million or 43% primarily due to additional debt incurred to fund the purchase of PacifiCorp stock by Inner PacifiCorp for the acquisition of North-West.

♦ Interest capitalized rose $5 million due to increased construction and inventory work-in-progress related to the North Pacific Cable and long lines replacement satellite.

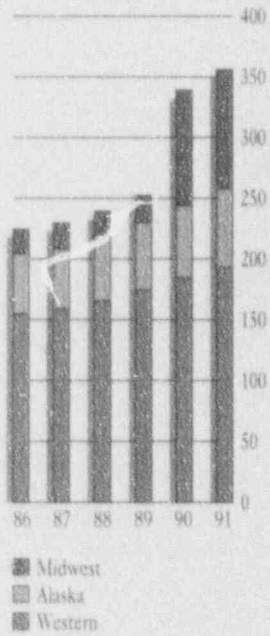
♦ Minority interest increased $7 million primarily due to income from the North Pacific Cable project.

♦ Losses from equity and other investments decreased $5 million due to the sale in 1989 of substantially all noncore subsidiaries to Inner PacifiCorp.

♦ Other income increased $8 million due to a pretax gain from the sale of a communications subsidiary, offset in part by international operations losses.

♦ Income taxes increased $8 million primarily due to the sale of a communications subsidiary in early 1990.

ACCESS LINES BY REGION
(THOUSANDS)



FINANCIAL SERVICES

MILLIONS OF DOLLARS / FOR THE YEAR

	1991	1990	1989	1988	1987	1986	1991 to 1990 Percentage Comparison	5-Year Compound Annual Growth
REVENUES								
Net financing	$ 131.8	$ 183.0	$ 235.0	$ 209.6	$ 125.8	$ 61.7	(28)%	16%
Other	60.3	43.5	18.6	15.4	4.2	.2	39	*
TOTAL	192.1	226.5	253.6	225.0	130.0	61.9	(15)	25
Interest and debt expense	91.2	111.5	155.3	115.3	58.6	34.1	(18)	22
NET	100.9	115.0	98.3	109.7	71.4	27.8	(12)	29
Depreciation and amortization	8.0	5.6	5.9	4.9	2.1	.7	43	63
Other expenses	94.2	85.6	81.1	71.0	42.7	22.0	10	34
INCOME (LOSS) FROM OPERATIONS	(1.3)	23.8	11.3	33.8	26.6	5.1	(105)	*
NET INCOME	12.4	18.2	16.8	25.5	21.1	7.7	(32)	10
Allocated Corporate interest charges, preferred dividends and other	5.5	10.6	12.7	11.1	11.4	3.6	(48)	9
EARNINGS CONTRIBUTION[(a)]	$ 6.9	$ 7.6	$ 4.1	$ 14.4	$ 9.7	$ 4.1	(9)	11
Identifiable assets	$ 1,685	$ 1,724	$ 2,346	$ 2,242	$ 1,577	$ 877	(2)	14
Number of employees	656	675	570	646	395	277	(3)	19
ASSETS								
Aviation finance	$ 491	$ 429	$ 410	$ 429	$ 215	$ 165	14	24
Computer leasing	$ 363	$ 549	$ 558	$ 488	$ 305	$ 134	(34)	22
Other financial services	$ 371	$ 472	$ 537	$ 601	$ 408	$ 272	(21)	6
Real estate	$ 237	$ 145	$ 73	$ 33	$ 12	$ –	63	*
Units sold or liquidated	$ –	$ –	$ 622	$ 481	$ 499	$ 275	–	*
Manufacturing	$ 24	$ 20	$ –	$ –	$ –	$ –	20	*

* Not a meaningful number.

(a) Does not reflect elimination of interest on intercompany borrowing arrangements and income taxes on a separate-company basis. PFS is compensated for certain tax benefits regardless of when the Company can utilize these benefits.

FINANCIAL SERVICES
(MILLIONS OF DOLLARS)

FACTORS INFLUENCING EARNINGS

PFS' earnings are affected by business cycles of the aviation, computer and real estate industries. These cycles affect customer credit quality and the ultimate amount realized on lease residuals. Other significant factors include interest rates, tax laws and cost of capital. PFS participates in numerous tax advantaged transactions and is reimbursed by Inner PacifiCorp for the net tax benefits.

During 1991, International Business Machines, Inc. ("IBM") initiated litigation against a major competitor of PFS' Computer Leasing Unit that involved allegations by IBM that certain practices constitute allegedly unfair business practices. PFS is engaged in ongoing discussions with IBM regarding certain of these practices. It is PFS' management opinion that any prospective change in the competitive dynamics of the computer leasing industry resulting from this dispute will not have a material effect on PFS' results of operations.

Regulatory proceedings and the uncertain financial condition of the customer for the output of a PFS investment accounted for as a leveraged lease could negatively impact its earnings contribution. However, during 1991, this customer reached agreements, subject to definitive documentation, with various creditors, that will enable it to receive certain regulatory rate relief. No earnings in the current period were attributable to this investment; however, should the above agreements not become effective and PFS sustained a total loss by abandoning its investment, PFS could experience an after-tax loss of up to $18 million. PFS believes that the agreements will ultimately become effective and does not expect to realize a material loss associated with this transaction.

On February 25, 1992, PFS' one-third partnership interest in a leveraged lease financing transaction of a large commercial office building in Denver, Colorado was restructured. PFS'

partnership interest was sold to the other partners in the original transaction in exchange for a cash payment of $7 million and a $22 million second mortgage promissory note with an interest rate of 9.5% and scheduled principal payments to begin in 2001. Prior to the restructuring, PFS had accounted for this investment as a leveraged lease. Prospectively, this investment will be accounted for as a finance receivable. As a result of the restructuring, no income or loss was recorded. However, the asset will remain on nonaccrual status until an adequate performance period has passed.

1991 COMPARED TO 1990

Revenues decreased $34 million or 15%.

♦ Net financing revenues decreased $51 million or 28%. A decrease of $34 million resulted from a lower level of average finance assets, $12 million was due to increased nonaccrual finance assets and $7 million was derived from a reduction in computer leasing trading profits. A 1991 gain of $5 million on the sale of securities was offset by a $7 million gain in 1990 on the sale of five aircraft. Nonaccrual finance assets at December 31, 1991 and 1990 were $79 million and $43 million, respectively.

♦ In 1991, inventory of off-lease equipment held for sale increased from $27 million to $103 million primarily as a result of four aircraft repossessions. PFS is actively marketing these assets.

♦ Other revenue increased $17 million or 39% due primarily to the July 1991 acquisition of a majority ownership interest in certain real estate partnerships, added affordable housing projects and increased revenues from a manufacturing company obtained in May 1990.

♦ Interest and debt expense decreased $20 million or 18% primarily due to lower average net assets financed and lower average interest rates (8.80% in 1991 compared to 9.5[illegible]% in 1990).

Operating expenses increased $11 million or 12%.

♦ Manufacturing expense for the company whose common stock was obtained in May 1990 increased $9 million and real estate development and property rental expense increased $8 million due to increased investments in property. These increases were offset in part by cost savings of $5 million associated with staff reductions.

Earnings contribution decreased $1 million or 9%.

♦ Income from operations decreased $25 million.

♦ Other expense decreased $12 million due to a pretax loss in 1990 on the sale of finance assets.

♦ Income tax benefits increased $7 million reflecting a higher pretax loss and increased tax credits associated with affordable housing projects.

♦ Allocated Corporate interest charges, preferred dividends and other decreased $5 million due to decreased interest allocated by Corporate and the retirement of all outstanding preferred stock in mid-1991.

1990 COMPARED TO 1989

Revenues decreased $27 million or 11%.

♦ Net financing revenues decreased $52 million or 22% primarily due to the effect of $48 million of revenues recorded in 1989 related to $480 million of finance assets sold in January 1990 and a further $11 million decline in revenues associated with downsizing other lines of business, offset in part by increases of $7 million from the sale of five aircraft from the aviation portfolio and $5 million in computer leasing revenues.

♦ Other revenues increased $25 million due to revenues of $29 million recorded for a small manufacturing company obtained in 1990 through loan management activities and $5 million from added affordable housing projects, partially offset by a $9 million decrease resulting from the liquidation of a marketable securities portfolio in early 1990.

♦ Interest and debt expense decreased $44 million or 28% primarily due to lower average debt levels, as proceeds of the sale of finance assets were used to repay debt, and to lower average interest rates (9.52% in 1990 compared to 9.74% in 1989).

Operating expenses increased $4 million.

♦ $23 million of manufacturing expense for the business obtained in 1990 and $3 million of expense for added affordable housing projects was offset by the effects of restructuring the financial services business. The provision for credit losses decreased $4 million. Exclusive of $7 million of the 1989 provision relating to assets sold during 1990, the provision increased $3 million or 44%. This increase reflected the larger level of problem accounts in PFS' portfolio and established the allowance for credit losses at a higher level than in 1989.

Earnings contribution increased $4 million.

♦ Income from operations increased $13 million primarily due to the operations of the manufacturing company obtained in 1990 and a gain in 1990 on the sale of five aircraft from the aviation portfolio.

♦ Other expense increased $11 million due to a pretax loss on the sale of finance assets.

REPORT OF MANAGEMENT

The management of PacifiCorp has the responsibility for preparing the accompanying financial statements and for their integrity and objectivity. The statements were prepared in accordance with generally accepted accounting principles applied on a consistent basis giving consideration to materiality. The financial statements include amounts that are based on management's best estimates and judgments. Management also prepared the other information in the annual report and is responsible for its accuracy and consistency with the financial statements.

The Company's financial statements have been audited by Deloitte & Touche, independent public accountants. Management has made available to Deloitte & Touche all the Company's financial records and related data, as well as the minutes of shareholders' and directors' meetings.

Management of the Company has established and maintains an internal control structure that provides reasonable assurance as to the integrity and reliability of the financial statements, the protection of assets from unauthorized use or disposition and the prevention and detection of fraudulent financial reporting. The internal control structure provides for appropriate division of responsibility and is continually monitored for compliance. The Company maintains an internal auditing program that independently assesses the effectiveness of the internal control structure and recommends possible improvements. Deloitte & Touche also considered the internal control structure in connection with its audit. Management has considered the internal auditors' and Deloitte & Touche's recommendations concerning the Company's internal control structure and has taken cost-effective actions to respond appropriately to these recommendations.

The Company's principles of business conduct, publicized throughout the Company, address, among other things, potential conflicts of interests, compliance with laws, including those relating to financial disclosure and the confidentiality of proprietary information.

The Audit Committee of the Board of Directors, comprised solely of outside directors, meets periodically with the Chairpersons of divisions and subsidiary audit committees, management, Deloitte & Touche, internal auditors and counsel to review the work of each and ensure that its responsibilities are being properly discharged. Deloitte & Touche and internal auditors have free access to the Committee, without management present, to discuss their audit work and their evaluations of the adequacy of the internal control structure and the quality of financial reporting.

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Shareholders of PacifiCorp:

We have audited the accompanying consolidated balance sheets of PacifiCorp and subsidiaries as of December 31, 1991 and 1990 and the related statements of consolidated income and retained earnings and of consolidated cash flows for each of the three years in the period ended December 31, 1991. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the consolidated financial position of PacifiCorp and subsidiaries at December 31, 1991 and 1990 and the results of their operations and their cash flows for each of three years in the period ended December 31, 1991 in conformity with generally accepted accounting principles.

Deloitte & Touche

DELOITTE & TOUCHE
Portland, Oregon
February 18, 1992

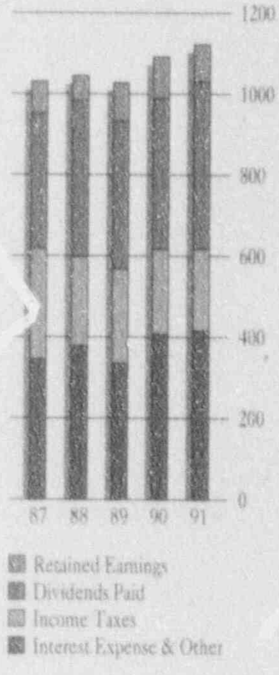
STATEMENTS OF CONSOLIDATED INCOME AND RETAINED EARNINGS

MILLIONS OF DOLLARS / YEAR ENDED DECEMBER 31	1991	1990	1989
REVENUES	$ 4,007.0	$ 3,838.3	$ 3,633.5
EXPENSES			
Operations	1,426.3	1,365.3	1,227.3
Maintenance	314.6	297.6	297.6
Administrative and general	292.9	307.0	310.9
Depreciation, depletion and amortization	575.8	479.9	430.9
Taxes, other than income taxes	180.5	186.5	177.2
Financial Services' interest expense	91.2	111.5	155.3
TOTAL	2,881.3	2,747.8	2,599.2
INCOME FROM OPERATIONS	1,125.7	1,090.5	1,034.3
INTEREST EXPENSE AND OTHER			
Interest expense	405.5	376.9	351.5
Interest capitalized	(30.6)	(33.3)	(25.7)
Gain from issuance of subsidiary's stock	–	–	(8.7)
(Income) loss from equity and other investments	(1.1)	29.3	23.9
Minority interest and other	41.5	34.0	(5.6)
TOTAL	415.3	406.9	335.4
Income before income taxes	710.4	683.6	698.9
Income taxes	203.2	209.7	233.3
NET INCOME	507.2	473.9	465.6
RETAINED EARNINGS, JANUARY 1	907.9	805.3	711.5
CASH DIVIDENDS DECLARED			
Preferred stock	(28.0)	(21.1)	(24.3)
Common stock *(per share: 1991/$1.485, 1990/$1.425, 1989/$1.365)*	(384.4)	(350.2)	(340.2)
COMMON AND PREFERRED STOCK RETIRED	(3.1)	–	(7.3)
RETAINED EARNINGS, DECEMBER 31	$ 999.6	$ 907.9	$ 805.3
EARNINGS ON COMMON STOCK (Net income less preferred dividend requirement)	$ 480.5	$ 452.0	$ 444.4
Average number of common shares outstanding *(thousands)*	258,350	244,467	245,818
EARNINGS PER COMMON SHARE	$ 1.86	$ 1.85	$ 1.81

(See accompanying Notes to Consolidated Financial Statements)

DISPOSITION OF INCOME FROM OPERATIONS

(MILLIONS OF DOLLARS)



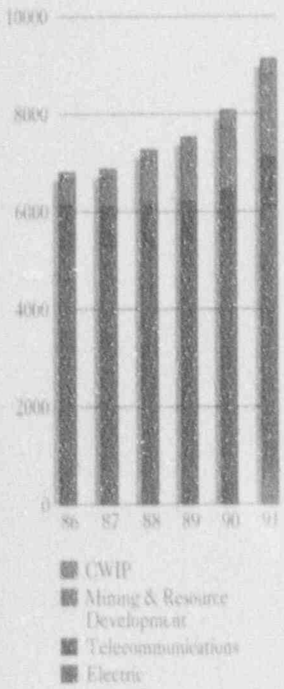
CONSOLIDATED BALANCE SHEETS

ASSETS	1991	1990
	MILLIONS OF DOLLARS / DECEMBER 31	
PROPERTY, PLANT AND EQUIPMENT		
Electric	$ 8,696.4	$ 7,928.6
Mining and Resource Development	2,268.7	1,741.7
Telecommunications	1,651.5	1,505.6
Other	23.1	34.7
Accumulated depreciation, depletion and amortization	(3,834.2)	(3,513.5)
Net	8,805.5	7,697.1
Construction work in progress	323.5	378.4
TOTAL PROPERTY, PLANT AND EQUIPMENT	9,129.0	8,075.5
FINANCIAL SERVICES' INVESTMENTS		
Investment in finance receivables *(less allowance for credit losses: 1991[$15.0 and 1990[$22.1)*	555.9	723.0
Net investment in leveraged leases	350.8	313.9
Net investment in equipment under operating leases	288.8	370.6
Net investment in other assets	266.0	186.6
TOTAL FINANCIAL SERVICES' INVESTMENTS	1,461.5	1,594.1
CURRENT ASSETS		
Cash and cash equivalents	80.0	186.0
Accounts receivable *(less allowance for doubtful accounts: 1991[$33.1 and 1990[$21.5)*	566.2	617.8
Materials, supplies and fuel stock *(at average cost)*	233.2	218.6
Inventory	175.4	187.6
Other	65.9	62.9
Assets held for sale	153.1	154.0
TOTAL CURRENT ASSETS	1,273.8	1,426.9
OTHER ASSETS		
Investments in and advances to affiliated companies	243.7	227.2
Cost in excess of net assets of businesses acquired	254.6	230.9
Deferred charges and other	866.2	817.4
TOTAL OTHER ASSETS	1,364.5	1,275.5
TOTAL ASSETS	$13,228.8	$12,372.0

(See accompanying Notes to Consolidated Financial Statements)

PROPERTY, PLANT AND EQUIPMENT / CONSTRUCTION WORK IN PROGRESS

(MILLIONS OF DOLLARS)

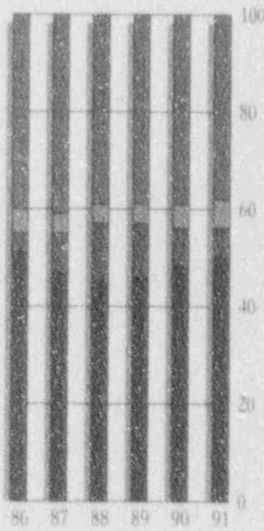


CAPITALIZATION AND LIABILITIES	MILLIONS OF DOLLARS / DECEMBER 31 1991	1990
COMMON EQUITY		
Common shareholder capital (shares authorized 750,000,000; shares outstanding: 1991/262,096,369 and 1990/252,832,259)	$ 2,574.1	$ 2,377.0
Retained earnings	999.6	907.9
Guarantees of Employee Stock Ownership Plan borrowings	(62.1)	(77.1)
TOTAL COMMON EQUITY	3,511.6	3,207.8
PREFERRED STOCK	342.4	342.4
PREFERRED STOCK SUBJECT TO MANDATORY REDEMPTION	150.0	50.0
LONG-TERM DEBT AND CAPITAL LEASE OBLIGATIONS	4,620.2	3,976.5
FINANCIAL SERVICES' DEBT		
Short-term notes payable	439.7	376.1
Long-term debt	574.3	695.1
TOTAL FINANCIAL SERVICES' DEBT	1,014.0	1,071.2
CURRENT LIABILITIES		
Long-term debt and capital lease obligations currently maturing	131.3	102.5
Notes payable and commercial paper	241.4	408.4
Accounts payable	298.1	450.8
Taxes, interest and dividends payable	451.2	389.3
Customer deposits and other	255.0	200.9
TOTAL CURRENT LIABILITIES	1,377.0	1,551.9
DEFERRED CREDITS		
Income taxes	1,153.2	1,147.8
Investment tax credits	236.3	252.2
Mining accruals and other	574.5	536.5
TOTAL DEFERRED CREDITS	1,964.0	1,936.5
MINORITY INTEREST	249.6	235.7
COMMITMENTS AND CONTINGENCIES *(See Notes)*		
TOTAL CAPITALIZATION AND LIABILITIES	$13,228.8	$12,372.0

(See accompanying Notes to Consolidated Financial Statements)

Capitalization

(PERCENT)



- Common Equity
- Preferred Stock
- Financial Services' Debt
- Long-Term Debt & Capital Lease Obligations

STATEMENTS OF CONSOLIDATED CASH FLOWS

	MILLIONS OF DOLLARS / YEAR ENDED DECEMBER 31		
	1991	1990	1989
CASH FLOWS FROM OPERATING ACTIVITIES			
Net Income	$ 507.2	$ 473.9	$ 465.6
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation and amortization	680.2	631.6	581.6
Deferred income taxes and investment tax credits - net	(16.8)	6.9	116.7
Interest capitalized on equity funds	(11.3)	(12.1)	(11.9)
Gain from issuance of subsidiary's stock	-	-	(8.7)
Losses from unconsolidated entities - net	6.2	17.9	17.1
One-time refund to Electric customers	-	(60.0)	-
Payment from sale of power entitlements	114.1	-	-
Minority interest, accrued reclamation and other	(16.1)	30.9	3.2
Accounts receivable and prepayments	59.8	(17.9)	(1.6)
Materials, supplies, fuel stock and inventory	41.2	(90.2)	(19.6)
Accounts payable and accrued liabilities	(88.4)	151.3	(23.8)
NET CASH PROVIDED BY OPERATING ACTIVITIES	1,276.1	1,132.3	1,118.6
CASH FLOWS FROM INVESTING ACTIVITIES			
Construction	(911.5)	(759.7)	(603.7)
Operating companies and assets acquired	(795.3)	(552.1)	(110.6)
Investments and advances to affiliated companies - net	(46.9)	(20.3)	12.2
Proceeds from sales of assets	159.9	564.6	27.1
Financial Services			
Proceeds from sales of assets and principal payments	476.8	506.9	767.2
Purchase of assets	(550.1)	(790.8)	(1,068.2)
Other	(2.0)	(1.3)	(20.2)
NET CASH USED IN INVESTING ACTIVITIES	(1,669.1)	(1,052.7)	(996.2)
CASH FLOWS FROM FINANCING ACTIVITIES			
Changes in short-term debt	(147.0)	57.6	15.1
Proceeds from long-term debt	1,206.1	699.9	366.2
Proceeds from issuance and exchange of common stock	199.3	383.0	22.2
Proceeds from issuance of subsidiaries' stock	1.1	2.0	53.1
Proceeds from issuance of preferred stock	98.4	100.0	-
Dividends paid	(408.6)	(364.2)	(352.4)
Repayments of long-term debt and capital lease obligations	(538.2)	(333.9)	(267.9)
Redemptions and repurchases of capital stock	(.5)	(225.7)	(71.0)
Financial Services			
Changes in short-term debt	63.5	(386.5)	99.8
Proceeds from long-term debt	163.3	230.3	349.0
Repayments of long-term debt	(318.0)	(392.3)	(399.3)
Proceeds from leveraged lease nonrecourse debt	69.4	235.1	7.4
Repayments of leveraged lease nonrecourse debt and deferred equity	(36.8)	(23.9)	(30.4)
Other	(65.0)	(32.1)	(20.7)
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	287.0	(50.7)	(228.9)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(106.0)	28.9	(106.5)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	186.0	157.1	263.6
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 80.0	$ 186.0	$ 157.1

(See accompanying Notes to Consolidated Financial Statements)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 1991, 1990 and 1989

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

The consolidated financial statements of PacifiCorp (the "Company") encompass two businesses primarily of a utility nature—Electric Operations (Pacific Power and Utah Power) and an 87% owned Telecommunications operation (Pacific Telecom, Inc.); an 82% owned Mining and Resource Development business (NERCO, Inc.); and a wholly-owned Financial Services business (PacifiCorp Financial Services, Inc.). The Company's wholly-owned subsidiary, Inner PacifiCorp, Inc. ("Inner PacifiCorp"), holds all of its diversified investments. Together these businesses are referred to herein as the Companies. Significant intercompany transactions and balances have been eliminated.

The financial activity of each of the above segments is separately reported in the tables on pages 32, 36, 38 and 40 of this report. Such information is an integral part of these financial statements.

The Company's proportionate share of income or loss from equity investments and certain majority-owned investments, where control is expected to be temporary, is included in losses from equity and other investments.

REGULATORY AUTHORITIES

Accounting for the utility businesses conforms with generally accepted accounting principles as applied to regulated public utilities and as prescribed by federal agencies and the commissions of the various states in which the utility businesses operate.

CASH AND CASH EQUIVALENTS

For the purposes of these financial statements, the Company considers all liquid investments with original maturities of three months or less to be cash equivalents.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are stated at original cost of contracted services, direct labor and material, interest capitalized during construction and indirect charges for engineering, supervision and similar overhead items. The cost of depreciable utility properties retired, including the cost of removal, less salvage, is charged to accumulated depreciation. Telecommunications plant at December 31, 1991 includes $47 million relating to cellular franchises which are being amortized over 40 years.

Mining and Resource Development follows the successful efforts method of accounting for its oil and gas operations. Costs of productive wells and developmental dry holes are capitalized. The costs of drilling unsuccessful exploratory wells are expensed upon determination that the well does not justify commercial development. Other exploratory costs, including geological and geophysical and lease maintenance costs, are charged to expense as incurred.

The carrying value of the Company's property, plant and equipment is evaluated periodically and, if conditions warrant, related impairment expense is recorded. Any excess carrying value of Mining and Resource Development's proved oil and gas properties over their related future undiscounted cash flows based on current market prices is recognized quarterly as impairment expense.

DEPRECIATION, DEPLETION AND AMORTIZATION

Depreciation, depletion and amortization is computed generally by the straight-line method over the estimated useful lives of the related assets, except for certain Mining and Resource Development properties, where the units of production method is used. Provisions for depreciation (excluding amortization of capital leases) in the utility businesses were 3.9% of average depreciable assets in 1991, 3.8% in 1990 and 4% in 1989.

The cost in excess of net assets of consolidated businesses acquired is amortized over periods ranging from 10 to 40 years.

FINANCE AND LEASE INCOME RECOGNITION

Interest revenue on lending transactions is recognized on an accrual basis commencing in the month of origination using methods that generally approximate the stated interest rate for the transaction. Direct financing lease revenue is recognized as a constant yield on asset carrying values. Operating lease revenue consists of periodic rentals, primarily monthly. The cost of equipment under operating lease is depreciated on a straight-line basis over the lease term. Leveraged lease revenue is recorded so as to produce a constant yield on the outstanding investments in periods when Financial Services' net investment in the lease is positive.

ALLOWANCE FOR CREDIT LOSSES

Allowance for credit losses is maintained at a level considered adequate to provide for potential credit losses based on management's assessment of various risk factors affecting the investment in finance receivables.

INVENTORY VALUATION

Inventories are generally valued at the lower of average cost or market.

INTEREST CAPITALIZED

Costs of debt and equity funds applicable to electric and telecommunication utility properties are capitalized during construction. Generally, the composite capitalization rates were 9.4% for 1991, 9.8% for 1990 and 10.8% for 1989.

INCOME TAXES

Electric Operations provides deferred taxes for differences due to book versus tax depreciation lives and methods and certain other timing differences. Telecommunications' regulated operations have provided deferred taxes for all timing differences since 1987. Pursuant to regulatory orders, deferred income taxes are not provided for certain other differences in the utility business. It is expected that regulatory practices affecting the utility businesses will permit recovery through revenues of income taxes, not provided for currently, when such taxes become payable.

Deferred income taxes are provided for all timing differences in the Mining and Resource Development, Telecommunications' nonrate regulated and Financial Services' operations.

Investment tax credits are deferred and amortized in accordance with the accounting practices prescribed by regulatory authorities. Investment tax credits generated by Electric Operations and Telecommunications are deferred and amortized to income over the average estimated lives of the properties.

REVENUE RECOGNITION

The Company accrues estimated unbilled revenues for electric services provided after cycle billing to month-end.

RECOGNITION OF CARRYING VALUE CHANGES OF INVESTMENTS

The Company recognizes changes in the carrying value from sales to the public of previously unissued securities by subsidiaries or equity investees as income or loss at the time of such sale.

RECLASSIFICATION

Certain amounts from prior years have been reclassified to conform with the 1991 method of presentation. These reclassifications had no effect on previously reported consolidated net income.

NOTE 2. ACQUISITIONS AND DISPOSITIONS

On April 8, 1991, Electric Operations purchased equity interests in the Wyodak plant. On June 8, 1991, the Company retired its share of the Wyodak debt, which had been recorded as a capital lease obligation, with issuances of medium-term notes and cash. Noncash investing and financing activities associated with the Wyodak purchase were as follows:

Net assets acquired	$ (169.9)
Disposition of net property under capital lease	132.5
Long-term debt assumed	105.6
Deferred credits assumed	8.0
Retirement of obligations under capital lease	(132.5)

On July 15, 1991, Electric Operations paid $234 million to Arizona Public Service Company ("APS") for Unit 4 of the Cholla coal-fired generating plant and related common facilities and commenced providing power to APS under a related power supply agreement. The acquisition was accounted for as a purchase.

Mining and Resource Development increased its investment in oil and gas properties in April 1991 with the acquisition of U.S. Gulf Coast offshore oil and gas assets for $500 million. In 1990, Mining and Resource Development acquired oil and gas properties in the U.S. Gulf Coast region and Mississippi for $249 million and central Appalachian coal producing properties and timberlands for $18 million. The 1991 and 1990 acquisitions were accounted for as purchases and were financed through short-term borrowing facilities and the issuance of medium-term notes.

In December 1991, Mining and Resource Development sold its 25-year natural gas supply contract with a Louisiana utility to a Texas limited partnership in which a minority interest is owned by a subsidiary of NERCO. Mining and Resource Development received $75 million in cash and a note from the sale and recorded revenues of $58 million. The recorded revenues reflected reductions for a $9 million investment in the partnership and a $9 million note receivable from the partnership.

North-West Telecommunications, Inc. ("North-West"), a company providing communications services in Wisconsin, was acquired by Telecommunications in August 1990 through the

delivery of 11,180,978 shares of the Company's common stock purchased for $247 million and $25 million in cash to NorthWest shareholders. The purchase method of accounting was used to record the acquisition, although for income tax purposes the merger was treated as a tax deferred transaction.

In January 1990, Financial Services completed the sale of substantially all the finance assets of two general leasing operating units to a subsidiary of AT&T Credit Corporation in a transaction valued at approximately $480 million. This sale resulted in an after-tax loss of $4 million.

NOTE 3. FINANCIAL SERVICES' INVESTMENTS

FINANCE RECEIVABLES

Payment terms of finance receivables are generally from two to five years. Net finance receivables include amounts for unearned income which are deferred and amortized over the term of the respective receivables so as to produce a constant rate of return.

Contractual maturities of finance receivables outstanding at December 31, 1991 were as follows:

MILLIONS OF DOLLARS / FOR THE YEAR

	1992	1993	1994	1995	1996	Thereafter
Direct finance leases	$ 128	$ 90	$ 47	$ 24	$ 15	$ 142
Other finance receivables	111	34	29	28	4	40
TOTAL FINANCE RECEIVABLES	$ 239	$ 124	$ 76	$ 52	$ 19	$ 182

The estimated unguaranteed residual value of leased equipment included in finance leases was $58 million and $61 million at December 31, 1991 and 1990, respectively. At the end of the lease period, the lessee usually has the option to buy the equipment. Unearned income related to leases was $179 million and $175 million at December 31, 1991 and 1990, respectively.

INVESTMENT IN LEVERAGED LEASES

Financial Services' investment in leveraged leases was as follows:

MILLIONS OF DOLLARS / DECEMBER 31

	1991	1990
Minimum lease payments receivable (net of principal and interest on third party nonrecourse debt)	$ 298.4	$ 250.5
Estimated unguaranteed residual value of leased assets	203.9	185.2
Less deferred income and investment tax credits	(151.5)	(121.8)
NET INVESTMENT IN LEVERAGED LEASES	$ 350.8	$ 313.9

Deferred income tax liability related to leveraged leases was $266 million and $245 million at December 31, 1991 and 1990, respectively.

EQUIPMENT UNDER OPERATING LEASES

Financial Services' net investment in equipment under operating leases was $289 million and $371 million after deductions of $149 million and $174 million for accumulated depreciation at December 31, 1991 and 1990, respectively. Scheduled payments to be received as rents from operating leases are $83 million, $44 million, $25 million, $21 million and $17 million in 1992 through 1996, respectively.

NOTE 4. SHORT-TERM DEBT AND BORROWING ARRANGEMENTS

The Companies' short-term debt and borrowing arrangements are as follows:

MILLIONS OF DOLLARS / DECEMBER 31, 1991	PacifiCorp	Subsidiaries
Revolving credit agreements and gold or silver bullion facilities	$ 350	$ 1,737
Commercial paper outstanding	(122)	(297)
Borrowings under bank lines and bullion facilities outstanding	(75)	(1,121)
AVAILABLE CAPACITY	$ 153	$ 319

Covenants in certain reimbursement agreements relating to letters of credit limit short-term borrowings to 12% of defined capitalization (limiting such borrowings to approximately $555 million at December 31, 1991). The Companies have the intent and ability to support short-term borrowings through various revolving credit agreements and gold or silver bullion facilities on a long-term basis. At December 31, 1991, PacifiCorp had $190 million and its subsidiaries had $780 million of short-term debt classified as long-term. Consolidated commitment fees were approximately $2 million in 1991 and 1990 and $3 million in 1989.

NOTE 5. COMMON AND PREFERRED STOCK

Changes in shares of capital stock and common shareholder capital are listed below:

THOUSANDS OF SHARES / MILLIONS OF DOLLARS	SHARES COMMON STOCK	SHARES PREFERRED STOCK	COMMON SHARE-HOLDER CAPITAL
BALANCE, JANUARY 1, 1989	246,518	4,037	$ 2,251.9
1989 Sales through Dividend Reinvestment and Stock Purchase Plan	1,049	–	22.2
Redemptions and repurchases	(1,200)	(195)	(14.8)
Shares purchased by Inner PacifiCorp	(1,774)	–	(38.7)
BALANCE, DECEMBER 31, 1989	244,593	3,842	2,220.6
1990 Sales through Dividend Reinvestment and Stock Purchase Plan	3,465	–	73.3
Sales through Employees' Stock Plans	3,373	–	73.8
Sales to public	–	1	–
Shares held by Inner PacifiCorp			
Purchased	(10,245)	–	(225.7)
Exchanged	11,646	–	235.0
BALANCE, DECEMBER 31, 1990	252,832	3,843	2,377.0
1991 Sales through Dividend Reinvestment and Stock Purchase Plan	2,933	–	65.2
Sales through Employees' Stock Plans	224	–	5.2
Sales to public	6,050	1,000	125.6
Disposition of shares held by Inner PacifiCorp	57	–	1.1
BALANCE, DECEMBER 31, 1991	262,096	4,843	$ 2,574.1

Inner PacifiCorp held 314,982 shares and 372,206 shares at December 31, 1991 and 1990, respectively. See Note 2.

At December 31, 1991, there were 22,645,946 authorized but unissued shares of common stock reserved for issuance under the Dividend Reinvestment and Stock Purchase Plan, the K Plus Employee Stock Ownership and Savings Plan ("K Plus Plan") and for sales to the public. Eligible employees under the K Plus Plan may direct their pretax elective contributions into

the purchase of the Company's common stock. The Company makes matching contributions equal to a percentage of employee contributions also invested in the Company's common stock. Employee contributions eligible for matching contributions are limited to 6% of compensation.

Generally, preferred stock is redeemable at stipulated prices plus accrued dividends, subject to certain restrictions. Upon involuntary liquidation, all preferred stock is entitled to stated value or a specified preference amount per share plus accrued dividends.

PREFERRED STOCK OUTSTANDING

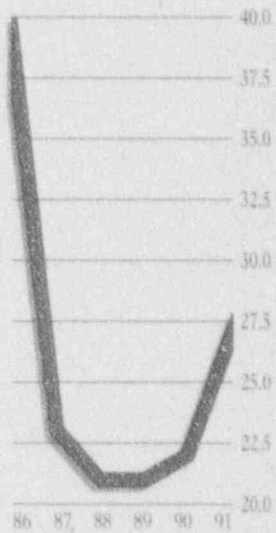
THOUSANDS OF SHARES / MILLIONS OF DOLLARS / DECEMBER 31

SERIES	1991 Shares	1991 Amount	1990 Shares	1990 Amount
SUBJECT TO MANDATORY REDEMPTION				
No Par Serial Preferred, 16,000 Shares Authorized				
$7.12 ($100 stated value)	500	$ 50.0	500	$ 50.0
7.70	1,000	100.0	–	–
TOTAL		$150.0		$ 50.0
NOT SUBJECT TO MANDATORY REDEMPTION				
1.16 ($25 stated value)	193	$ 4.8	193	$ 4.8
1.18	420	10.5	420	10.5
1.28	381	9.5	381	9.5
1.76	394	9.8	394	9.8
1.98	502	12.6	502	12.6
2.13	666	16.7	666	16.7
Auction Rate ($100,000 stated value)[a]	2	200.0	2	200.0
Serial Preferred $100 Stated Value Per Share, 3,500 Shares Authorized				
4.52%	2	.2	2	.2
4.56	85	8.5	85	8.5
4.72	70	7.0	70	7.0
5.00	42	4.2	42	4.2
5.40	66	6.6	66	6.6
6.00	6	.6	6	.6
7.00	18	1.8	18	1.8
7.96	135	13.5	135	13.5
8.92	69	6.9	69	6.9
9.08	165	16.5	165	16.5
5% Preferred, $100 Stated Value, 127 Shares Authorized and Outstanding	127	12.7	127	12.7
TOTAL		$342.4		$342.4

(a) Dividend rates at December 31, 1991 on 500 shares each of Series A, Series B, Series C and Series D were 4.5%, 4.9%, 4.7% and 4.8%, respectively.

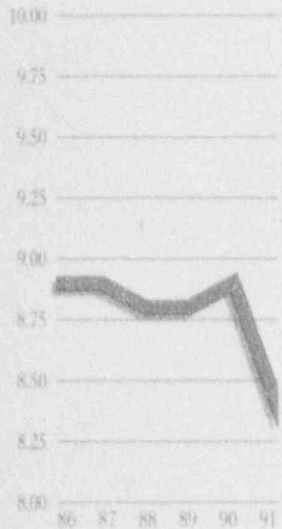
PREFERRED DIVIDEND REQUIREMENT

(MILLIONS OF DOLLARS)



Mandatory redemption requirements at stated value plus accrued dividends on the $7.12 No Par Serial Preferred Stock are 15,000 shares annually beginning in 1993. If the Company is in default in its obligation to make any such redemptions, it may not pay cash dividends on common stock. The entire series of $7.70 No Par Serial Preferred Stock is subject to mandatory redemption at stated value plus accrued dividends on August 15, 2001.

EMBEDDED COST OF MORTGAGE BOND DEBT
(PERCENT)



NOTE 6. LONG-TERM DEBT AND CAPITAL LEASE OBLIGATIONS

The Company's long-term debt and capital lease obligations were as follows:

MILLIONS OF DOLLARS / DECEMBER 31	1991	1990
PACIFICORP		
First mortgage and collateral trust bonds		
Maturing 1992 through 1996/4½%-8⅞%	$ 396.4	$ 318.9
Maturing 1997 through 2002/7%-10%(a)	693.3	346.3
Maturing 2003 through 2007/8¼%-9%	441.5	423.5
Maturing 2008 through 2021/8.3%-9⅞%	453.0	439.8
Scheduled for redemption in February 1992(d)	201.3	201.3
Guaranty of pollution control revenue bonds		
Variable rates 2014 through 2019(b)	369.3	279.3
6%-8½% due 2003 through 2005	36.9	36.9
5.9%-10.7% due 2004 through 2017(c)	249.6	339.6
Funds held by trustee	(.9)	(4.5)
7.5% Debentures due 1991	–	70.0
Term loan agreement due 1994	–	55.0
Commercial paper and uncommitted bank lines(b)(d)	190.0	100.0
Leveraged ESOP loan guaranty	26.2	33.9
Unamortized premium and discount	11.0	8.0
Capital lease obligations (Note 7)	20.0	133.0
TOTAL	3,087.6	2,781.0
Less current maturities	68.0	76.8
TOTAL	3,019.6	2,704.2
SUBSIDIARIES		
2%-15% First mortgage notes and bonds maturing through 2024	170.8	174.1
5.4%-12% Notes due through 2007	105.1	89.4
Unsecured domestic credit agreements(b)(d)	54.5	101.0
Commercial paper and uncommitted bank lines(b)(d)	279.1	314.4
Variable rate notes due through 1998(b)(d)	339.8	80.6
8.2%-10.1% Medium-term notes due through 2006	650.3	465.2
Leveraged ESOP loan guaranty	35.9	43.2
Capital lease obligations (Note 7)	28.4	30.1
TOTAL	1,663.9	1,298.0
Less current maturities	63.3	25.7
TOTAL	1,600.6	1,272.3
TOTAL	$ 4,620.2	$ 3,976.5
FINANCIAL SERVICES		
6%-13.5% Nonrecourse debt due through 2031	$ 184.7	$ 189.8
5.5%-10¾% Senior debt due through 1996	188.6	251.1
9.2%-10.5% Senior subordinated debt due through 1998	65.0	73.0
10%-10.7% Junior subordinated debt due through 1998	38.9	51.2
Commercial paper(b)(d)	97.1	130.0
TOTAL	$ 574.3	$ 695.1

(a) Includes $50 million in 9.38% bonds issued to secure obligations under an equivalent 10-year yen loan. A currency swap converted the fixed rate yen liability to a floating rate U.S. dollar liability based on six-month LIBOR plus .02% (interest rate 6.46% at December 31, 1991).

(b) Interest rates fluctuate based on various rates, primarily on certificate of deposit rates, interbank borrowing rates or prime rates.

(c) Secured by pledged first mortgage bonds generally at the same interest rates, maturity dates and redemption provisions as the secured pollution control revenue bonds.

(d) The Companies have the ability to support short-term borrowings and current debt being refinanced on a long-term basis through revolving lines of credit and term loan agreements and therefore, based upon management's intent, have classified $970 million of short-term debt and $201 million of long-term debt scheduled for payment in February 1992 as long-term debt.

The Companies have entered into interest rate swap and exchange agreements to reduce the impact of changes in interest rates on their variable rate long-term debt. At December 31, 1991, the Companies had outstanding 13 interest rate contracts with commercial banks and Fortune 500 companies, having a total notional principal amount of $364 million. These agreements change the Companies interest rate exposure on the underlying variable rate debt to effective rates of 6.8% to 11%. These contracts mature at various times up to the year 2002. The Companies are exposed to credit loss in the event of nonperformance by the other parties to the interest rate swap agreements. However, the Companies do not anticipate nonperformance by the counterparties.

Approximately $5 billion of the assets of the Companies secure long-term debt and capital lease obligations. First mortgage and collateral trust bonds of the Company may be issued in amounts limited by property, earnings and other provisions of the mortgage indentures.

The Company and Inner PacifiCorp guarantee certain debt of the Leveraged ESOP Trust established under the K Plus Plan (the "Trust"). In addition, the Company and Inner PacifiCorp guarantee the Trust's performance under certain interest rate swaps having a total notional principal amount of $48 million that were entered into by the Trust and a commercial bank. These arrangements change the interest rate exposure on the variable rate debt guaranteed by the Company and Inner PacifiCorp to effective rates of 6.9% and 7%, respectively, at December 31, 1991. The debt was used to acquire the Company's common stock. Common equity has been reduced and long-term debt has been increased by the amount of the debt guaranteed. Remaining unallocated common shares total 2,839,648.

Nonrecourse long-term notes are secured by assignment of related finance receivables, asset security interests and cash flows from operating leases as collateral. The noteholders have no additional recourse to the Companies.

Subordinated long-term debt is subordinated to senior short-term debt and senior long-term debt. Junior subordinated debt is further subordinated to senior subordinated debt.

Maturity and sinking fund requirements on all long-term debt and capital lease obligations and redeemable preferred stock outstanding are $319 million, $636 million, $222 million, $680 million and $279 million in 1992 through 1996, respectively.

The Company's Mortgages and Deeds of Trust, as supplemented, relating to its long-term debt, restrict the payment of cash dividends and other distributions on common stock. At December 31, 1991, the Company's retained earnings available for these purposes was $915 million.

The Company made interest payments, net of capitalized interest, of $554 million, $531 million and $523 million in 1991, 1990 and 1989, respectively.

NOTE 7. LEASES

The Companies lease certain properties under leases expiring during the next 84 years. Rentals on lease renewals are subject to negotiation. Certain leases provide for options to purchase at fair market value. The Companies are also committed to pay all taxes, expenses of operation (other than depreciation) and maintenance applicable to the leased property.

On April 8, 1991, Electric Operations purchased equity interests in the Wyodak coal-fired generating plant. At December 31, 1990, Electric Operations had recognized the following amounts relating to the Wyodak lease: $132 million in capitalized net property, plant and equipment; $127 million in long-term capital lease obligations; and $17 million of 1990 rent expense.

Property, plant and equipment include the following amounts for leases that have been capitalized:

MILLIONS OF DOLLARS / DECEMBER 31	1991	1990
Electric	$ 39	$ 185
Mining and Resource Development	25	44
	64	229
Less accumulated amortization	24	74
TOTAL	$ 40	$ 155

Lease amortization expense is included in depreciation expense except for Electric Operations. Consistent with state regulators' treatment for Electric Operations rate-making purposes, an amount equal to the annual lease payments is included in rent expense. Imputed interest components of those lease payments approximated $1 million in 1991 and $11 million in 1990.

MINIMUM RENTALS UNDER NONCANCELLABLE LEASES

MILLIONS OF DOLLARS / DECEMBER 31

	OPERATING LEASES	CAPITALIZED LEASES
1992	$ 41	$ 5
1993	21	5
1994	16	5
1995	13	5
1996	10	6
Thereafter	119	100
TOTAL	$ 220	126
Less imputed interest		78
Present value of minimum rental payments		48
Less current portion		2
LONG-TERM CAPITAL LEASE OBLIGATIONS		$ 46

Net rent expense, including Electric Operations' rent expense attributable to capitalized leases, for the years ending December 31, 1991, 1990 and 1989 was $66 million, $72 million and $89 million, respectively.

NOTE 8. COMMITMENTS AND CONTINGENCIES

CONSTRUCTION AND OTHER

Construction programs are estimated at $939 million for 1992. As a part of these programs, substantial commitments have been made.

Electric Operations has agreed to purchase from an unaffiliated supplier 1.28 million tons of coal per year over the next 21 years.

In connection with certain option provisions contained in limited partnership agreements, a subsidiary of PFS may be obligated to purchase the other partners' interests at various times through 1992 for an aggregate of $26 million.

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 presently believes that disposition of these matters will not have a materially adverse effect on the Company's consolidated results of operations.

JOINTLY OWNED PLANTS

At December 31, 1991, Electric Operations' participation in jointly owned plants was as follows:

MILLIONS OF DOLLARS

	ELECTRIC OPERATIONS' SHARE	PLANT IN SERVICE	ACCUMULATED DEPRECIATION	CONSTRUCTION WORK IN PROGRESS
Centralia	47.5%	$ 160.5	$ 92.4	$ 7.6
Jim Bridger				
Units 1,2,3 and 4	66.7	766.8	252.6	7.2
Trojan	2.5	19.5	8.0	.9
Colstrip Units 3 and 4	10.0	197.6	37.4	.9
Hunter Unit 1	93.8	245.9	80.1	.2
Hunter Unit 2	60.3	178.4	50.5	1.3
Wyodak[a]	80.0	285.7	68.9	1.1

(a) Held under leveraged lease arrangement.

Under the joint agreements, each participating utility is responsible for financing its share of construction, operating and leasing costs. Electric Operations' portion is recorded in its applicable operations, maintenance and tax accounts.

Consolidated revenues include coal sales to the Jim Bridger Power Plant joint venture partner of $39 million, $41 million and $42 million in 1991, 1990 and 1989, respectively.

Substantial amounts of power are purchased from several hydroelectric projects under long-term arrangements with public utility districts. These purchases are made on a "cost-of-service" basis for a stated percentage of project output and for a like percentage of project annual costs (operating expenses and debt service). These costs are included in operations expense. Electric Operations is required to pay its portion of the debt service, whether or not any power is produced. The arrangements provide for nonwithdrawable power and most of them also provide for additional power, withdrawable by the districts upon one to five years' notice. For 1991, such purchases approximated 4.3% of energy requirements; an additional 10.7% was obtained through other purchase and net interchange arrangements.

At December 31, 1991, Electric Operations' share of long-term arrangements with public utility districts was as follows:

GENERATING FACILITY	YEAR CONTRACT EXPIRES	CAPACITY (KW)	PERCENTAGE OF OUTPUT	ANNUAL COSTS[a]
Wanapum	2009	155,444	18.7	$ 4.1
Priest Rapids	2005	109,602	13.9	2.8
Rocky Reach	2011	64,297	5.3	1.7
Wells	2018	54,198	7.0	1.5
TOTAL		383,541		$ 10.1

(a) Annual costs include debt service of $5.8 million.

The Company has a 4% interest in the Intermountain Power Project ("Project"), located in central Utah. The Company and the City of Los Angeles have agreed that the City will purchase capacity and energy from Company plants equal to the Company's 4% entitlement of the Project at a price equivalent to 4% of the expenr .s and debt service of the Project.

NOTE 9. INCOME TAXES

The Company's effective combined federal and state income tax rate was 29% in 1991 and 31% in 1990 and 33% in 1989. The difference between taxes calculated as if the statutory federal tax rate of 34% was applied to income before income taxes and the recorded tax expense is reconciled as follows:

	MILLIONS OF DOLLARS/FOR THE YEAR		
	1991	1990	1989
COMPUTED FEDERAL INCOME TAXES	$ 241.5	$ 232.4	$ 237.6
REDUCTION IN TAX RESULTING FROM			
Excess (deficiency) of tax over book depreciation (flow-through basis)	2.2	9.7	(3
Investment tax credits	16.3	16.4	14.6
Other items capitalized and miscellaneous differences	27.3	15.5	6.5
Federal tax reductions	45.8	41.6	17.4
FEDERAL INCOME TAX	195.7	190.8	220.2
STATE INCOME TAX, NET OF FEDERAL INCOME TAX BENEFIT	7.5	18.9	13.1
TOTAL INCOME TAX EXPENSE	$ 203.2	$ 209.7	$ 233.3
INCOME TAX EXPENSE CONSISTS OF THE FOLLOWING			
TAXES CURRENTLY PROVIDED			
Federal	$ 188.4	$ 179.6	$ 101.3
State	17.7	26.6	15.3
DEFERRED INCOME TAXES			
Depreciation differences	34.4	16.3	36.4
Intangible drilling costs	20.7	7.6	3.4
Sale of contract entitlements	(42.[illegible])	(.6)	43.4
Leasing income recognition differences	21.0	69.2	73.1
Excess of tax gain on disposition assets	(6.2)	(45.7)	(9.1)
Accrued pension and retirement benefits	(11.4)	(6.3)	.5
Other	(2.3)	(20.6)	(20.8)
INVESTMENT TAX CREDITS - NET	(16.3)	(16.4)	(10.2)
TOTAL	$ 203.2	$ 209.7	$ 233.3

EFFECTIVE INCOME TAX RATE

(PERCENT)

During 1990, the Internal Revenue Service (the "IRS") completed its examination of the Company's federal income tax returns for the years 1983 through 1986, and has proposed certain adjustments increasing taxes by $153 million. Among other issues, the IRS is challenging the Company's abandonment of its 10% interest in Washington Public Power Supply System Unit 3. These proposed adjustments represent the IRS's initial audit position on specific issues and the IRS has not issued a formal notice of tax deficiency.

The State of Montana has proposed a tax increase of $39 million, including interest through December 31, 1991, relating to Montana's position that certain subsidiaries should be excluded from the NERCO and PacifiC[illegible]bined unitary return.

The Company has filed pr[illegible] to these proposed adjustments with the IRS and [illegible] Montana. In the opinion of management, based in part [illegible] discussions with counsel, the outcome will not have a material effect on the Company's consolidated financial position or results of operations.

Financial Services acquires housing projects that qualify for the low income housing credit established as part of the Tax Reform Act of 1986 to provide an incentive for the development and preservation of privately-owned affordable rental housing. Annual tax benefits scheduled to be received from these projects are expected to approximate $10 million each year from 1992 through 1996.

Deferred income taxes have not been provided on certain book and tax timing differences as the method of rate-making is based on taxes currently payable, [illegible] expected that there will be recovery of future taxes through revenues. At December 31, 1991, accumulated timing differences for which deferred taxes have not been provided amounted to approximately $1.3 billion.

The Company made income tax payments, net of refunds, of $172 million, $166 million and $105 million in 1991, 1990 and 1989, respectively.

NOTE 10. RETIREMENT PLANS

The Companies have pension plans covering substantially all of their employees. Benefits under these plans are generally based on the employee's years of service and average monthly pay in the five consecutive years of highest pay out of the last ten years, with adjustments, except for Utah Power bargaining unit employees, to reflect benefits estimated to be received from Social Security. Pension costs are funded annually by no more than the maximum amount of pension expense which can be deducted for federal income tax purposes. Unfunded prior service costs are amortized over the remaining service period of employees expected to receive benefits. At December 31, 1991, plan assets were primarily invested in common stocks, bonds and U.S. government obligations.

Net pension cost is summarized as follows:

MILLIONS OF DOLLARS / FOR THE YEAR	1991	1990	1989
Service cost - benefits earned	$ 19.4	$ 20.4	$ 20.6
Interest cost on projected benefit obligation	66.8	57.7	53.0
Actual gain on plan assets	(118.4)	(24.5)	(58.1)
Net amortization and deferral	79.6	15.3	1.7
Regulatory deferral[a]	(33.1)	(65.8)	(5.5)
NET PENSION COST	$ 14.3	$ 3.1	$ 11.7

(a) Electric Operations has received accounting orders from its primary and certain other regulatory authorities to defer the difference between pension cost as determined in accordance with FAS 87 and 88 and that determined for funding purposes.

The funded status, net pension liability and significant assumptions are as follows:

MILLIONS OF DOLLARS / DECEMBER 31	PLANS WITH ASSETS IN EXCESS OF ACCUMULATED BENEFITS		PLANS WITH ACCUMULATED BENEFITS IN EXCESS OF ASSETS	
	1991	1990	1991	1990
Actuarial present value of benefit obligations				
Vested benefit obligation	$ 133.7	$ 79.8	$ 538.9	$ 556.9
Accumulated benefit obligation	137.7	83.3	577.8	590.7
Projected benefit obligation	179.8	117.8	633.9	648.8
Plan assets at fair value	209.6	136.2	446.9	445.3
Assets in excess of (or less than) projected benefit obligation	29.8	18.4	(187.0)	(203.5)
Unrecognized prior service cost	1.3	1.3	10.8	11.9
Unrecognized net gain	(23.6)	(1.6)	(106.8)	(74.3)
Unrecognized net (asset) obligation at January 1, being amortized over 7 to 22 years	(15.1)	(10.1)	122.4	128.0
Minimum liability adjustment	.7	-	(57.5)	(62.4)
NET PENSION ASSET (LIABILITY)	$ (6.9)	$ 8.0	$ (218.1)	$ (200.3)
Discount rate	8-9%	8-9%	8-9%	9%
Expected long-term rate of return on assets	8-9%	8-9%	8-9%	8-9%
Rate of increase in compensation levels	5-6.5%	5-6.5%	6-6.5%	6-6.5%

Included in the table above is the Company's nonqualified plan for certain management employees of Utah Power. Prior to 1990, benefits were based on final salary upon retirement or death. After January 1, 1990, benefit payments are based upon salaries at that date. The plan is being funded by Company owned life insurance on the lives of plan participants. As a result of regulatory orders, the Company defers all benefits and costs under the plan and maintains sufficient life insurance related to the plan such that the present value of the life insurance proceeds will at least equal the present value of all plan

costs and premiums on the life insurance. At December 31, 1991 and 1990, accumulated deferred benefits and costs, net of accumulated insurance proceeds, amounted to $140 million and $121 million, respectively, which are included in deferred charges in the accompanying balance sheets. The life insurance policies which have total cash surrender values at December 31, 1991 and 1990 of $67 million and $58 million, respectively, are not considered to be assets of the plan for purposes of determining net periodic cost.

During 1990, as part of its overall cost reduction program, Electric Operations offered an early retirement incentive program. Included in the table above is the present value of all future termination benefits provided of $47 million. Electric Operations has received regulatory accounting orders to defer these costs as a regulatory asset to be amortized over thirty years.

The Companies provide health care and life insurance benefits for their retirees on a basis substantially similar to those who are active employees. The cost of these benefits, which is charged to expense as incurred, was $10 million in 1991, $9 million in 1990 and $7 million in 1989.

The Financial Accounting Standards Board has issued FAS 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions." This statement will require accrual of postretirement benefits, such as health care benefits, during the years an employee provides service. Effective for employees retiring after December 31, 1991, the Companies have revised their retiree benefit programs. The revisions include limiting the amount of subsidy provided for medical benefits, limiting the amount of subsidized life insurance benefits and changing the way the medical plans integrate with medicare for all retired employees. Based upon the most recent actuarial studies, it is estimated the Companies have a transition obligation liability of $240 million. This statement allows for either immediate recognition of this transition obligation liability or amortization of that liability over a period of up to 20 years. The Company may seek regulatory approval to defer the difference between net periodic cost and costs incurred for future collection from ratepayers. The Company has not decided which options it will use for recognition of the liability. The Companies are considering early adoption of this statement, which is required to be adopted no later than 1993.

NOTE 11. SUBSEQUENT EVENT (UNAUDITED)

Natural gas prices have declined sharply in early 1992. As a result of this decline, Mining and Resource Development expects to recognize a noncash impairment expense on its oil and gas properties in the first quarter of 1992. The amount of the write down will be based upon Mining and Resource Development's evaluation of its oil and gas properties at current prices. However, based on early-March 1992 gas prices and other information currently available, Mining and Resource Development expects to recognize a first quarter after-tax asset impairment expense on its oil and gas properties ranging from approximately $150 million to $175 million.

OFFICERS

PACIFICORP POLICY GROUP

A. M. Gleason, 61
President and Chief Executive Officer PacifiCorp
♦ *1949*

Gerard K. Drummond, 54
Executive Vice President PacifiCorp Chairman NERCO
♦ *1977*

Paul G. Lorenzini, 49
President Pacific Power
♦ *1987*

Robert W. Moench, 65
President (Retired 1/31/92) Pacific Power
♦ *1951*

Verl R. Topham, 57
President Utah Power
♦ *1972*

Lawrence E. Heiner, 53
President and Chief Executive Officer NERCO
♦ *1981*

Charles E. Robinson, 58
Chairman and Chief Executive Officer Pacific Telecom
♦ *1960*

William J. Glasgow, 45
Chairman, President and Chief Executive Officer PacifiCorp Financial Services, Inc.
♦ *1988*

A. M. Gleason

Gerard K. Drummond

Paul G. Lorenzini

Verl R. Topham

Lawrence E. Heiner

Charles E. Robinson

William J. Glasgow

Robert W. Moench

PACIFICORP

Charles C. Adams, 48
Senior Vice President
♦ *1974*

Harry A. Haycock, 56
Senior Vice President
♦ *1968*

Frederic D. Reed, 54
Senior Vice President
♦ *1969*

Daniel L. Spalding, 38
Senior Vice President
♦ *1981*

Robert F. Lanz, 49
Vice President and Treasurer
♦ *1973*

Sally A. Nofziger, 55
Vice President and Corporate Secretary
♦ *1962*

Jacqueline S. Bell, 50
Controller
♦ *1980*

PACIFIC POWER

Paul G. Lorenzini, 49
President Pacific Power
♦ *1987*

John A. Bohling, 48
Executive Vice President
♦ *1972*

UTAH POWER

Verl R. Topham, 57
President Utah Power
♦ *1972*

John E. Mooney, 55
Executive Vice President
♦ *1960*

NERCO

William W. Lyons, 57
Senior Vice President
♦ *1977*

Richard T. O'Brien, 38
Senior Vice President, Treasurer and Chief Financial Officer
♦ *1983*

Linda S. Rogers, 41
Senior Vice President
♦ *1981*

PACIFIC TELECOM

Theodore D. Berns, 42
President and Chief Operating Officer
♦ *1986*

James H. Huesgen, 42
Executive Vice President and Chief Financial Officer
♦ *1983*

Vern K. Dunham, 58
Senior Vice President
♦ *1972*

PACIFICORP FINANCIAL SERVICES

William E. Peressini, 35
Senior Vice President and Chief Financial Officer
♦ *1985*

Michael C. Henderson, 45
Senior Vice President
♦ *1991*

Craig N. Longfield, 46
Senior Vice President and Chief Credit Officer
♦ *1989*

GENERAL COUNSEL

Stoel Rives Boley Jones & Grey

INDEPENDENT AUDITORS

Deloitte & Touche

♦ *Year each officer joined company*

BOARD OF DIRECTORS






C. M. Bishop, Jr., 67
President
Pendleton Woolen Mills
Portland, Oregon
♦ 1970

Richard C. Edgley, 56
Managing Director
Finance and Records Dept.
The Church of Jesus Christ
of Latter-day Saints
Salt Lake City, Utah
♦ 1987

A. M. Gleason, 61
President and Chief
Executive Officer
PacifiCorp
Portland, Oregon
♦ 1988

C. Todd Conover, 52
President and Chief
Executive Officer
Central Banks of Colorado
Denver, Colorado
♦ 1991

Don C. Frisbee, 68
Chairman
PacifiCorp
Portland, Oregon
♦ 1966

Gerard K. Drummond, 54
Executive Vice President
PacifiCorp
Portland, Oregon
♦ 1993





John C. Hampton, 66
Chairman and Chief
Executive Officer
Hampton Resources, Inc
Portland, Oregon
♦ *1983*

Stanley K. Hathaway, 67
Partner
Hathaway, Speight, Kunz,
Trautwein & Barrett
Cheyenne, Wyoming
♦ *1975*

Keith R. McKennon, 58
Chairman, Chief Executive
Officer and Director
Dow Corning Corporation
Midland, Michigan
♦ *1992*

Michael O. Leavitt, 41
President and Chief
Executive Officer
The Leavitt Group
Salt Lake City, Utah
♦ *1989*

Don M. Wheeler, 63
President and General Manager
Wheeler Machinery
Company
Salt Lake City, Utah
♦ *1989*

Nancy Wilgenbusch, 44
President
Marylhurst College
Marylhurst, Oregon
♦ *1986*

♦ *Year each director elected to board*

INVESTOR INFORMATION

STOCK EXCHANGE LISTINGS

PacifiCorp's common stock is listed on the New York Stock Exchange and the Pacific Stock Exchange under the symbol PPW.

Daily quotes on the common stock can be obtained by checking the New York Stock Exchange composite transactions listed in local newspapers.

The company's preferred stock and first mortgage bonds are infrequently traded in the over-the-counter market.

PUBLIC INFORMATION

Financial analysts, stockbrokers, interested investors and financial media desiring information about PacifiCorp should contact the following individuals in investor relations:

Mike Nelson (503) 731-2125
Chris Hunter (503) 731-2090

SHAREHOLDER SERVICES AND INFORMATION

Shareholder Services may be reached from all long distance call locations at (800) 233-5453. Portland-area callers should use 731-2002. The toll-free telephone number is answered between 8:00 a.m. and 4:00 p.m. Pacific time every business day. Shareholder Services will assist you with:

- *Stock transfer and name change requirements*
- *Address changes*
- *Replacement of dividend checks*
- *Duplicate 1099 forms and W-9 tax certification forms*
- *Notices of lost or destroyed stock certificates*
- *Dividend Reinvestment Plan statement history and information regarding the plan*
- *Other questions concerning PacifiCorp stock ownership*

Shareholders' written correspondence:

PacifiCorp Shareholder Services
700 N.E. Multnomah St., Suite 700
Portland, Oregon 97232-4107

TRANSFER AGENT

PacifiCorp maintains shareholder records and acts as Transfer Agent and Registrar for the company's common and preferred stock issues.

DIVIDEND REINVESTMENT AND STOCK PURCHASE PLAN

PacifiCorp's dividend reinvestment plan is a convenient way for shareholders to increase their investment in the company.

Under the plan, quarterly dividends from common and preferred shares (all or a portion) may be automatically applied toward purchase of additional shares of common stock. In addition, cash contributions of up to $25,000 per quarter can be made. All, or any portion, of the reinvestment shares can be sold through the plan upon termination of participation. A small commission fee is charged when applicable.

Existing shareholders can open a dividend reinvestment account with either dividends from existing shares or with an initial cash contribution. For a prospectus, enrollment card or other information, call or write the shareholder services department.

BONDHOLDER INFORMATION

Inquiries concerning lost bonds, interest payments, changes of address and other matters relating to ownership should be directed to:

Corporate Trust Operations Dept.
Tellers and Mail Unit
55 Exchange Place - Basement A
New York, NY 10260-0023
(212)235-0900

Bondholders needing further assistance should contact:

PacifiCorp Shareholder Services
(503) 731-2002
Toll-Free Number: (800) 233-5453

ANNUAL MEETING

The 1992 Annual Meeting of PacifiCorp Shareholders will be:

Wednesday, May 13, 1992
1:30 p.m. Pacific Daylight Time.

Oregon Convention Center
777 N.E. Martin Luther King, Jr. Boulevard
Portland, Oregon

FORM 10-K

A copy of the company's 1991 10-K, filed with the Securities and Exchange Commission, may be obtained by contacting investor relations at the corporate headquarters address.

DIVIDEND PAYMENT

Dividends on the company's common and preferred stock in 1992 are expected to be paid on or about:

February 15   May 15   August 15   November 15

CORPORATE HEADQUARTERS

PacifiCorp
700 N.E. Multnomah, Suite 1600
Portland, OR 97232-4116
(503) 731-2000

OPERATIONS

Pacific Power
920 S.W. Sixth Avenue
Portland, OR 97204-1256
(503) 464-6000

Utah Power
201 South Main Street, Suite 2300
Salt Lake City, UT 84140-0021
(801) 220-4907

Pacific Telecom, Inc.
805 Broadway
P.O. Box 9901
Vancouver, WA 98668-9901
(206) 696-0983

NERCO, Inc.
500 N.E. Multnomah, Suite 1500
Portland, OR 97232-2045
(503) 731-6600

PacifiCorp Financial Services, Inc.
111 S.W. Fifth Avenue
P.O. Box 1831
Portland, OR 97207-1831
(503) 222-7900

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[illegible]
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PACIFICORP

700 N.E. MULTNOMAH
PORTLAND, OR 97232-4116