BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE	)	CASE NO. PAC-E-02-3
INVESTIGATION OF	)	
INTER-JURISDICTIONAL	)	SUPPLEMENTAL DIRECT
ISSUES AFFECTING PACIFICORP	)	TESTIMONY OF
DBA UTAH POWER & LIGHT CO.	)	ANDREA L. KELLY

JULY 2004

Q. Ms. Kelly, did you previously file testimony in this proceeding?

A. Yes. My Direct Testimony was part of the Company's original filing with the Commission in September of 2003. The principal purpose of my Direct Testimony was to describe the terms of a "Protocol" document to be ratified by the Commission. The Protocol contained the terms of a proposed resolution of the PacifiCorp interjurisdictional cost allocation issues that have been the subject of the Multi State Process ("MSP").

Purpose

Q. What is the purpose of your Supplemental Direct Testimony?

A. The purpose of my Supplemental Direct Testimony is to describe events that have occurred in the MSP since our September filing and to present a revised version of the MSP Protocol for Commission consideration.

Exhibit No. 19 is a copy of the Revised Protocol, including its Appendix A, which sets forth various defined terms. Mr. Taylor sponsors Appendices B, C, D and E to the Revised Protocol in his Supplemental Testimony. Mr. Duvall sponsors Appendix F to the Revised Protocol in his Supplemental Testimony. As with my Direct Testimony, when I use capitalized terms in my Supplemental Testimony they are intended to have the same meaning set forth in Appendix A to the Revised Protocol.

Events Since September, 2003 filing

Q. What has occurred in the MSP since the Company's September, 2003 filing?

A. Subsequent to the filing, procedural schedules were set in Utah, Oregon and Wyoming. All of the schedules provided for discovery, prefiled testimony by other parties and ultimately formal hearings this summer. However, Commissioners and other interested parties in Utah and Oregon expressed a preference for a continued exchange of information among the States and a continued attempt to achieve a consensus solution to MSP issues. Therefore, the procedural schedules in Utah and Oregon also provided for a number of technical conferences, public meetings and meetings among Commissioners from different states – all aimed at achieving consensus among the parties. To further the exchange of information and perspectives, representatives of the Oregon Commission Staff and the Utah Division of Public Utilities participated in several meetings. In April, 2004, Commissioners in Oregon and Utah concluded that the process would benefit from the further involvement of Robert Hanfling as a mediator. After Mr. Hanfling was reengaged, he participated in a number of meetings with individual parties and groups and presided over four multi-party meetings during late April.

Q. Did these informal meetings afford the Company an opportunity to better understand the parties' reactions to its September, 2003 filing?

A. Yes. We received a great deal of valuable feedback, much of which is reflected or incorporated in the Revised Protocol.

Q. Please summarize the major issues that were raised by parties in response to your September filing.

A. The major messages we received were as follows:

1. No party appeared supportive of the proposed form of "hydro endowment" and corresponding "coal endowment".

2. No party appeared supportive of the "coal opt-out" provision that was proposed for Oregon.

3. Many parties were concerned that provisions of the Protocol related to Special Contracts and Portfolio Resources could impinge on the right of each State to set rates

without being bound by the determinations of other Commissions.

4. Utah parties remained very concerned about including the Mid-Columbia Contracts in a "hydro-endowment" to the former Pacific Power States. Oregon parties felt strongly that they should be included.

5. Oregon parties were very concerned that it be understood that any Northwest entitlement to Hydro-Electric Resources and Mid-Columbia Contracts would be permanent. Correspondingly, Utah parties were concerned that if Northwest States received the near-term benefits of Hydro-Electric Resources and Mid-Columbia Contracts that they remain responsible for future costs of those Resources even if they become uneconomic.

6. Oregon parties remained unconvinced that cost shifts were not flowing from slower growing States to faster growing States under the Protocol. Utah parties recognized that cost shifts arising from disparate State load growth was a legitimate concern, but wished to assure that any "cure" be well understood and equitable for all States.

7. Oregon parties pointed out that there was a flaw in the provisions of the Protocol related to assigning the costs of New Resources to the loads of Direct Access Customers who were no longer being planned for by the Company.

8. Utah and Oregon parties recognized that a principal goal of the Protocol was to afford States the ability to craft their own energy policies and wished to make sure that such policies did not burden customers in other States. In addition, Utah parties wished to be assured that PacifiCorp would make locally based Company decision-makers available to support the development and implementation of such State policy initiatives.

9. Many parties reiterated the view that any MSP solution be rooted in principle and good analysis and not simply be crafted to reach a pre-conceived numeric outcome.

10. Many parties expressed a preference for an MSP solution that was as simple and understandable as possible. Concern was regularly expressed that any changes from existing practices be carefully studied so as to avoid unintended consequences.

<u>Protocol Changes</u>

Classification

Q. Does the Revised Protocol make changes in the proposed classification of Resources?

A. Yes. The original Protocol proposed to classify the Fixed Costs of simple-cycle combustion turbines as 100 percent Demand-Related. Not all parties were convinced that there was a compelling case for classifying simple cycle combustion turbines differently from other Resources. The Revised Protocol accepts this view and proposes a 75 percent Demand-Related and 25 percent Energy-Related classification. The reasons for this change are discussed in the Supplemental Testimony of David L. Taylor.

Hydro-Endowment

Q. How does the Revised Protocol deal with the previously proposed form of hydro endowment and corresponding "coal endowment"?

A. The concept of a hydro endowment is preserved but implemented in a different form. The coal endowment has been eliminated.

Q. How is the hydro endowment implemented in the Revised Protocol?

A. The Revised Protocol introduces a new concept of affording States value from their allocated share of Hydro-Electric Resources and Mid-Columbia Contracts through a "embedded cost differential" calculation. The Supplemental Testimony of Messrs. Taylor and Duvall describe in detail how the calculation is made. However, generally speaking, this method compares the total embedded cost of Hydro-Electric Resources and Mid-Columbia Contracts on a dollar per MWh basis with the total embedded cost of the Company's other Resources (excluding the costs of Hydro-Electric Resources, Mid-Columbia Contracts and Existing QF Contracts). The difference in cost is then multiplied by the normalized output from the Hydro-Electric Resources and the Mid-Columbia Contracts. If the difference is negative (the Hydro-Electric Resources and Mid-Columbia Contracts costs are less expensive than other Resources), it is credited to the States with the hydro endowment. If the difference is positive (the Hydro-Electric Resources and Mid-Columbia Contracts costs are more expensive than other Resources), there is a charge to the hydro endowment States.

Q. Why are the costs of Existing QF Contracts excluded from the calculation of the Company's embedded cost of Resources when performing this calculation?

A. Existing Qualifying Facilities are also subject to an "endowment" which I discuss later in my testimony.

Q. What issues have arisen regarding the inclusion of the Mid-Columbia Contracts in the hydro endowment?

A. Allocating the benefits of the Mid-Columbia Contracts has been one of the most controversial subjects dealt with in the MSP. Parties in Oregon and Washington see little distinction between Hydro-Electric Resources and the Mid-Columbia Contracts. They observe that the original Mid-Columbia Contracts were structured in a way that affords PacifiCorp rights and responsibilities similar to ownership of a share of the Mid-

Columbia projects. They also note that the social costs and cultural concerns associated with the Mid-Columbia projects are of unique interest to Oregon and Washington. Utah parties respond by pointing out that for most of the time since the Pacific Power/Utah Power merger, the Mid-Columbia Contracts have been treated as System Resources with all States supporting the costs of these contracts.

Q. How does the Revised Protocol resolve these issues?

A. The Revised Protocol seeks to balance the parties concerns. All States are afforded a share of the costs and benefits of the Mid-Columbia Contracts. However, shares assigned to Oregon and Washington are larger than would be the case if they were treated as System Resources. Mr. Duvall's Supplemental Testimony provides specifics regarding the calculation of each State's allocated share related to the Mid-Columbia Contracts.

QF Contracts

Q. You previously mentioned that Existing QF Contracts are also subject to a unique treatment. Please explain what is proposed.

A. The embedded cost differential method is used to compare the average annual costs of Existing QF Contracts located in each State with the average embedded cost of the Company's other Resources (excluding the costs of Hydro-Electric Resources, Mid-Columbia Contracts and Existing QF Contracts). The difference in cost is then multiplied by the normalized output from the Existing QF Contracts. If the difference is positive (the Existing QF Contracts are more expensive than other Resources), there is a charge to the State in which the QF is located. If the difference is negative (the Existing QF Contracts are less expensive than other Resources), the State receives a credit for the amount of the difference.

Q. Why is the adjustment for Existing QF Contracts being proposed?

A. Existing QF Contracts have substantially different prices in different States, reflecting different State policies that were in effect at the time they were entered into. These prices do not necessarily reflect market derived prices and may differ substantially from the costs of other resources. A consistent theme in the MSP discussions is that costs arising from individual State policies should be borne by customers in the State making the policy. Also, because Existing QF Contracts in Oregon have higher prices than those in Utah, this adjustment tends to balance the revenue requirement impact of the Revised Protocol. It appears that Oregon parties view this as reasonable, provided they can be assured that Oregon's greater entitlement to Mid-Columbia Contract benefits is not reduced in the future.

Q. Why is the embedded cost differential charge/credit being applied only to Existing QF Contracts and not to New QF Contracts?

A. There are two primary reasons. First, an underlying provision of the Protocol is that all States share in the cost of new Resources. If the costs of New QF Contracts are equal to the costs of other new Resources, there is no negative impact on other States and no reason to make a situs assignment of additional costs. Only if New QF Contracts are more expensive than the costs of Comparable Resources is there an impact on other States. Second, there was substantial concern that applying the embedded cost differential approach in respect to New QF Contracts could distort the Company's new Resource acquisition process and create an unfair bias against New QF Contracts.

Q. Please explain why there could be such a bias.

A. If the embedded cost differential method were applied to a New QF Contract (assuming its cost is greater than the embedded cost of existing Resources), it would have a greater impact on prices charged to customers in the State where the New QF Contract is located than would a comparable, equally priced non-QF resource that was not subject to the embedded cost differential method.

Q. How are States protected from decisions by other States that cause excessive prices to be paid for New QF Contracts?

A. Paragraph III (C) (3) (b) of the Protocol provides that "[C]osts associated with any New QF Contract which exceed the costs PacifiCorp would have otherwise incurred acquiring Comparable Resources, will be assigned on a situs basis to the State approving such contract".

Q. When and how will the determination be made that the price paid for a New QF Contract was excessive and that there should be a situs assignment of costs?

A. The MSP discussions did not resolve this issue. While parties seem to generally agree with the principle expressed in the Protocol, there was considerable concern that it not undermine each Commission's prerogative to establish fair, just and reasonable rates and to not be bound by the finding of another Commission. The Company is not especially comfortable with the lack of detailed procedures in the Protocol regarding New QF Contracts that exceed the cost of Comparable Resources. Hopefully, Commissions will be mindful of the importance of not permitting additional expensive QF contracts to be put in place and there will not be a need for situs cost assignment. If problems do arise, the subject would be appropriate for prompt review by the MSP Standing Committee.

Portfolio Resources

Q. What changes are made in the Revised Protocol in respect to Portfolio Resources?

A. Under the terms of the original Portfolio, costs of Portfolio Resources that were disallowed by other States were to be assigned to the State requiring the acquisition of the Portfolio Resource. MSP parties were uncomfortable with this approach because it appeared that another Commission's findings in regard to Portfolio Resources might unreasonably shift costs to the State mandating the Portfolio Resource and limit that State's rate setting prerogatives.

Q. How were these issues resolved?

A. The Revised Portfolio treats Portfolio Resources in the same manner as New QF Contracts. It establishes the basic principle that costs of Portfolio Resources which exceed the costs of Comparable Resources available to the Company will be assigned on a situs basis. As with New QF Contracts, the Revised Protocol does not describe procedures that will cause this to occur. Again, if Portfolio Resources become a significant issue, the matter will have to be taken up by the MSP Standing Committee.

Direct Access

Q. What changes were made in the Revised Protocol in respect to Direct Access Programs?

A. The original Protocol proposed that the costs of all Resources be allocated on the basis of State load that included the load of Direct Access Customers. Oregon parties correctly pointed out that the load of Direct Access Customers who had permanently left PacifiCorp's system (and were no longer being planned for) should not be included in Load-Based Dynamic Allocation Factors for New Resources. The Revised Protocol recognizes this distinction. The Revised Protocol also recognizes that some customers may make a permanent election to have some or all of their load served by the Company based upon a market rate rather than a traditional cost-of-service rate derived from the cost of the Company's Resources. The definition of "Direct Access Customers" in the Revised Protocol is expanded to include customers who exercise such a permanent "opt-out" so that their load is excluded from Load-Based Dynamic Allocation Factors for New Resources.

Sustainability

Q. What changes were made in the "sustainability" provisions of the Protocol?

A. In the Revised Protocol, express provision is made for a "Standing Neutral" to be appointed by the MSP Standing Committee. The Standing Neutral is to facilitate discussions among States, monitor emerging issues and assist the MSP Standing Committee, as required.

As I indicated previously, Oregon and Washington parties remain very concerned about the prospect of relatively faster growing States causing a cost shift to relatively slower growing States. In an effort to alleviate these concerns, the Revised Protocol includes a commitment to analyze potential cost shifts related to faster-growing States in concert with the current IRP planning cycle. In addition, a multi-state workgroup will track key factors including actual relative growth rates, forecast relative growth rates, costs of new Resources compared to costs of existing Resources and other factors deemed relevant to this issue. The MSP Standing Committee – likely through a technical workgroup – is charged with developing a mechanism that could be implemented in a timely manner in the event that the studies show a material and sustained harm from the implementation of the IRP to slower-growing States.

Benefits of an Agreement

Q. Ms. Kelly, in your Direct Testimony, you described how the Protocol attempted to recognize and balance the various principles that had been articulated by MSP participants. Is that true as well of the Revised Protocol?

A. Yes. Of the various principles articulated in my Direct Testimony, the concept of States being afforded the ability to craft their own energy policies, while not shifting costs to other States, figures somewhat more prominently in the Revised Protocol as reflected in the treatment of QF Contracts and the provisions regarding Direct Access Programs. With the elimination of the unique classification of Simple-Cycle Combustion Turbines and the Oregon "coal opt-out" provision, the Revised Protocol furthers the principles of simplicity and ease of administration.

Q. Are there other benefits to the States of reaching a mutual agreement on the inter-jurisdictional issues that have been the subject of the MSP?

A. Yes. An agreement to the terms of the Revised Protocol by all States will benefit customers through: (1) continued six-State integrated system planning, (2) improved ability to implement the results of system planning efforts, (3) continued access to financial and commercial trading markets by a healthy utility, (4) retention of the benefits and efficiencies of the integrated system, (5) improved ability to work with State policy makers and address differences in policies among our States, and (6) mitigation of the impacts on other jurisdictions of a single State's energy policies.

Q. Has the Company attempted to quantify these benefits?

A. Yes. Although it is difficult to provide a point estimate, there are ranges of impacts that should be considered. For example Mr. Duvall's analytic team produced divisional stand-alone studies that estimated system integration benefits between $200 and $300 million over the fourteen-year study period. Similarly, if PacifiCorp's credit quality was significantly impaired over time as a result of continued disagreement among the States, the potential for increased costs of debt and equity could result. A 100 basis point increase in the Company's cost of equity is equal to an approximate $55 to $60 million increase in total Company revenue requirement. On the commercial and trading side, impairment of credit quality can negatively impact the Company's attractiveness as a counterparty, potentially leading to tighter restrictions or trading limits imposed by other market participants. While we consider these to be extreme possibilities, we remain gravely concerned that a breakdown in the MSP could result in risks and costs to our customers that they would not face if the states are able to agree.

Other Witnesses

Q. What other witnesses are offering Supplemental Testimony?

A. Mr. Duvall's Supplemental Testimony describes various analyses that have been conducted since the original Protocol was filed. In particular, he focuses on:

- The greater understanding that has been gained of the "load growth" issue and how it might be mitigated, and
- The development and calculation of the MC Factor for allocating Mid-Columbia Contracts

Mr. Taylor's Supplemental Testimony provides much of the technical support for the classification and allocation provisions of the Revised Protocol, particularly:

- The details of the embedded cost differential adjustment calculation related to Hydro-Electric Resources, Mid-Columbia Contracts and Existing QF Contracts;
- Additional detail on the Treatment of Special Contracts; and
- The forecasted State-by-State revenue requirement impacts of the Revised Protocol.

Q. Does this conclude your Supplemental Direct Testimony?

A. Yes.

Case No. PAC-E-02-3
Exhibit No. 19
Witness: Andrea L. Kelly

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

PACIFICORP

Exhibit Accompanying Supplemental Direct Testimony of Andrea L. Kelly

Protocol and Appendix A - Definition of Terms

July 2004

I. Introduction

This PacifiCorp Inter-Jurisdictional Cost Allocation Protocol is the result of extensive discussions that have occurred among representatives of PacifiCorp, Commission staff members and other interested parties from Utah, Oregon, Wyoming, Idaho and Washington regarding issues arising from the Company's status as a multi-jurisdictional utility.[1] These discussions were referred to as the Multi-State Process, or MSP.

PacifiCorp commits that it will continue to plan and operate its generation and transmission system on a six-State integrated basis in a manner that achieves a least cost/least risk Resource portfolio for its customers.

The Protocol describes regulatory policies, which, if followed by all States on a long-term basis, should afford PacifiCorp a reasonable opportunity to recover all of its prudently incurred expenses and investments and earn its authorized rate of return. The assignment of a particular expense or investment, or allocation of a share of an expense or investment, to a State pursuant to the Protocol is not intended to, and should not, prejudge the prudence of those costs. Nothing in the Protocol shall abridge any State's right and/or obligation to establish fair, just and reasonable rates based upon the law of that State and the record established in rate proceedings conducted by that State. It is the intent that the terms of the Protocol be enduring. Parties who have supported the ratification of the Protocol do so in the belief that it will achieve a solution to MSP issues that is in the public interest. However, a party's

[1] Key staff in California monitored the proceedings and received relevant documents.

support of the Protocol is not intended in any manner to negate the necessary flexibility of the regulatory process to deal with changed or unforeseen circumstances, and a party's support of the Protocol will not bind or be used against that party in the event that unforeseen or changed circumstances cause that party to conclude, in good faith, that the Protocol no longer produces results that are just, reasonable and in the public interest. Support of the Protocol shall not be deemed to constitute an acknowledgement by any party of the validity or invalidity of any particular method, theory or principle of regulation, cost recovery, cost of service or rate design and no party shall be deemed to have agreed that any particular method, theory or principle of regulation, cost recovery, cost of service or rate design employed in the Protocol is appropriate for resolving any other issues.

The Protocol describes how the costs and wholesale revenues associated with PacifiCorp's generation, transmission and distribution system will be assigned or allocated among its six State jurisdictions for purposes of establishing its retail rates.

Definitions of terms that are capitalized in the Protocol are set forth in Appendix A.

A table identifying the allocation factor to be applied to each component of PacifiCorp's revenue requirement calculation is included as Appendix B.

The algebraic derivation of each allocation factor is contained in Appendix C.

A description and numeric example of how Special Contracts and related discounts will be reflected in rates is set forth in Appendix D.

A listing of FERC accounts relied upon in the definition of "Annual Embedded Costs" is set forth in Appendix E.

Each State's allocated share of each Mid-Columbia Contract and the method for calculating the shares is set forth in Appendix F.

II. Proposed Effective Date

The Protocol will be effective and apply to all PacifiCorp retail general rate proceedings initiated subsequent to June 1, 2004.

III. Classification of Resource Costs

All Resource Fixed Costs, Wholesale Contracts and Short-term Purchases and Sales will be classified as 75 percent Demand-Related and 25 percent Energy-Related. All costs associated with Non-Firm Purchases and Sales will be classified as 100 Percent Energy-Related.

IV. Allocation of Resource Costs and Wholesale Revenues

Resources will be assigned to one of four categories for inter-jurisdictional cost allocation purposes:

A. Seasonal Resources,

B. Regional Resources,

C. State Resources, or

D. System Resources.

There are three types of Seasonal Resources, one type of Regional Resource and three types of State Resources. The remainder are System Resources which constitute the substantial majority of PacifiCorp's Resources. Costs associated with each category and type of Resource will be allocated on the following basis:

A. Seasonal Resources

Costs associated with the following three types of Seasonal Resources will be allocated as follows:

1. Simple-Cycle Combustion Turbines (SCCTs): All Fixed Costs associated with SCCTs will be allocated based upon the SSGCT (Seasonal System Generation Combustion Turbine) Factor. All Variable Costs associated with SCCTs will be allocated based upon the SSECT (Seasonal System Energy Combustion Turbine) Factor.
2. Seasonal Contracts: All Costs associated with the Seasonal Contracts will be allocated based upon the SSGP (Seasonal System Generation Purchases) Factor.
3. Cholla IV/ APS: All Fixed Costs associated with the Cholla Unit 4 and the seasonal exchange provided for in the APS Contract will be allocated based upon the SSGCH (Seasonal System Generation Cholla) Factor. All Variable Costs associated with Cholla Unit 4 and the seasonal exchange provided for in the APS Contract will be allocated based upon the SSECH (Seasonal System Energy Cholla) Factor. Following the expiration of the APS Contract, Cholla Unit 4 will be allocated as a System Resource and no longer allocated as a Seasonal Resource.

The MSP Standing Committee will review Seasonal Resources criteria and allocation. Items to be considered include the seasonal patterns of Resource operation to determine seasonality, the treatment of associated off-system sales, the value of operating reserves provided from Seasonal Resources, criteria to define seasonal

Exchange Contracts and methods for allocating the costs of seasonal exchange returns.

B. Regional Resources

Costs associated with Regional Resources will be assigned and allocated as follows:

1. Hydro-Endowment:

a. Owned Hydro Embedded Cost Differential Adjustment. The Owned Hydro Embedded Cost Differential Adjustment is calculated as the Annual Embedded Costs – Hydro-Electric Resources, less the Annual Embedded Costs – All Other, multiplied by the normalized MWh's of output from the Hydro-Electric Resources used to set rates (Hydro less All Other). The Owned Hydro Embedded Cost Differential Adjustment will be allocated on the DGP factor and the inverse amount will be allocated on the SG factor.

b. Mid-Columbia Contract Embedded Cost Differential Adjustment: The Mid-Columbia Contract Embedded Cost Differential Adjustment is calculated as the Annual Mid-Columbia Contracts Costs, less the Annual Embedded Costs – All Other, multiplied by the normalized MWh's of output from the Mid-Columbia Contracts (Mid-C less All Other). The allocation of Mid-Columbia Contracts to each State is established pursuant to Appendix F. The Mid-Columbia Embedded Cost Differential Adjustment will be allocated on the MC factor and the inverse amount will be allocated on the SG factor.

c. Unless otherwise recommended by the MSP Standing Committee, as long as the Oregon parties that originally supported ratification of the Protocol continue to support the use of the Protocol for purposes of establishing the Company's Oregon revenue requirement, PacifiCorp will not propose or advocate any material change in the Protocol provisions related to Hydro-Electric Resources, Mid-Columbia Contracts and Existing QF Contracts. Provided, however, the foregoing provision shall not prevent the Company from complying with any Commission order.

C. State Resources

Costs associated with the three types of State Resources will be assigned as follows:

1. Demand-Side Management Programs: Costs associated with Demand-Side Management Programs will be assigned on a situs basis to the State in which the investment is made. Benefits from these programs, in the form of reduced consumption, will be reflected through time in the Load-Based Dynamic Allocation Factors.

2. Portfolio Standards: Costs associated with Resources acquired pursuant to a State Portfolio Standard, which exceed the costs PacifiCorp would have otherwise incurred acquiring Comparable Resources, will be assigned on a situs basis to the State adopting the standard.

3. Qualifying Facilities (QF) Contracts:

   a. Existing QF Contracts Embedded Cost Differential Adjustment: The Existing QF Contracts Cost Differential Adjustment is calculated as the Annual Existing QF Contracts Costs for each State, less the Annual Embedded

Costs – All Other, multiplied by the normalized MWh's of output from the respective State's Existing QF Contracts (State QF less All Other). The Existing QF Contract Embedded Cost Differential Adjustment will be allocated on a situs basis and the inverse amount will be allocated on the SG factor.

b. New QF Contracts: Costs associated with any New QF Contract, which exceed the costs PacifiCorp would have otherwise incurred acquiring Comparable Resources, will be assigned on a situs basis to the State approving such contract.

D. System Resources

All Resources that are not Seasonal Resources, Regional Resources or State Resources are System Resources. Generally, all Fixed Costs associated with System Resources and all costs incurred under Wholesale Contracts will be allocated based upon the SG Factor. Generally, all Variable Costs associated with System Resources will be allocated based upon the SE Factor. Revenues received by the Company pursuant to Wholesale Contracts will be allocated based upon the SG Factor. A complete description of the allocation factors to be utilized is set forth in Appendix B.

E. Load Growth

In concert with the 2004 IRP cycle, the Company and parties will analyze and quantify potential cost shifts related to faster-growing States.[2] In addition, a multi-state workgroup will track key factors

[2] This issue will be monitored through studies that compute the costs allocated to each State for two cases: (a) with currently projected load growth

(continued...)

including actual relative growth rates, forecast relative growth rates, costs of new Resources compared to costs of existing Resources, and other factors deemed relevant to this issue. No later than nine months after filing the 2004 IRP, the Company, in consultation with the MSP Standing Committee and other parties, will file a report with the Commissions regarding this issue. Included in this report will be a description of one or more options for a structural protection mechanism, detailed with sufficient specificity to allow timely implementation in the event that the studies show a material and sustained net harm to customers in any jurisdiction.

The MSP Standing Committee is charged with developing one or more ameliorative mechanisms that could be implemented in a timely manner in the event that the studies show a material and sustained net harm to particular States from the implementation of the IRP. The MSP Standing Committee should consider the impact of load growth in light of all other relevant factors. Potential mechanisms to be studied include tiered allocations, treatment of Seasonal Resources, a structural separation of the Company, temporary assignment of the costs of some new Resources to fast-growing States, and the inclusion of measures of recent load growth in the computation of allocation factors.

(…continued)
together with a least-cost, least-risk mix of Resource additions to meet that growth and (b) with the fastest-growing State growing at the average growth projected for the remaining States, again with a least-cost, least-risk mix of Resource additions.

V. Refunctionalization and Allocation of Transmission Costs and Revenues

If the Company is required to refunctionalize assets that are currently functionalized as "transmission" to "distribution", the cost responsibility for any such refunctionalized assets will be assigned to the State where they are located. Any refunctionalization will be implemented under the guidance of the MSP Standing Committee.

Costs associated with transmission assets, and firm wheeling expenses and revenues, will be classified as 75 percent Demand-Related, 25 percent Energy-Related and allocated among the States based upon the SG (System Generation) factor. Non-firm wheeling expenses and revenues will be allocated among the States based upon the SE Factor.

VI. Assignment of Distribution Costs

All distribution-related expenses and investment that can be directly assigned will be directly assigned to the state where they are located. Those costs that cannot be directly assigned will be allocated among States consistent with the factors set forth in Appendix B.

VII. Allocation of Administrative and General Costs

Administrative and general costs, costs of General Plant and costs of Intangible Plant will be allocated among States consistent with the factors set forth in Appendix B.

VIII. Allocation of Special Contracts

Revenues associated with Special Contracts will be included in State revenues and loads of Special Contract customers will be included in all Load-Based

Dynamic Allocation Factors. Special Contracts may or may not include Customer Ancillary Service Contract attributes. In recognition that Special Contracts may take different forms, Appendix D provides a written description and numeric example of the regulatory treatment of Special Contracts and associated discounts.

IX. Allocation of Gain or Loss from Sale of Resources or Transmission Assets

Any loss or gain from the sale of a Resource (other than a Freed-Up Resource) or a transmission asset will be allocated among States based upon the allocation factor used to allocate the Fixed Costs of the Resource or the transmission asset at the time of its sale. Each Commission will determine the appropriate allocation of loss or gain allocated to that State as between State customers and PacifiCorp shareholders.

X. Implementation of Direct Access Programs

A. Allocation of Costs and Benefits of Freed-Up Resources

1. Loads lost to Direct Access – Where the Company is required to continue to plan for the load of Direct Access Customers, such load will be included in Load-Based Dynamic Allocation Factors for all Resources.
2. Loads of customers permanently choosing Direct Access or permanently opting out of New Resources – Where the Company is no longer required to plan for the load of customers who permanently choose direct access or permanently opt out of New Resources, such loads will be included in Load-Based Dynamic Allocation Factors for all Existing Resources but will not be

included in Load-Based Dynamic Allocation Factors for New Resources acquired after the election to permanently choose Direct Access or opt out of New Resources. An effective date for this process will be established at such time as customers permanently choose Direct Access or opt out, and this process will be implemented under the guidance of the MSP Standing Committee.

3. In each State with Direct Access Customers, an additional step will take place for ratemaking purposes to establish a value or cost (which could include a transfer of Freed-Up Resources between customer classes within a State) resulting from the departure of the departing load; other States do not implement the second step.

B. Freed-Up Resource Sale Approval

Any proposed sale of a Freed-Up Resource for purposes of calculating transition charges or credits will be subject to applicable regulatory review and approval based upon a "no-harm" standard. States implementing Direct Access Programs that involve the sale of Freed-Up Resources will endeavor to propose a method for allocating the gain or loss on a sale to Direct Access Customers in a manner that satisfies the "no-harm" standard in respect to customers in the other States. The parties agree that they will not advocate a sale of Freed-Up Resources to be consummated if the proposed allocation of the gain or loss from the sale would cause the Company to distribute more than the total gain on a sale or recover less than the full amount of the total loss on a sale.

C. Allocation of Revenues and Costs from Direct Access Purchases and Sales

Revenues and costs from Direct Access Purchases and Sales will be assigned situs to the State where the Direct Access Customers are located and will not be included in Net Power Costs.

XI. Loss or Increase in Load

Any loss or increase in retail load occurring as a result of condemnation or municipalization, sale or acquisition of new service territory which involves less than five percent of system load, realignment of service territories, changes in economic conditions or gain or loss of large customers will be reflected in changes in Load-Based Dynamic Allocation Factors. The allocation of costs and benefits arising from merger, sale and acquisition transactions proposed by the Company involving more than five percent of system load will be dealt with on a case-by-case basis in the course of Commission approval proceedings.

XII. Commission Regulation of Resources

PacifiCorp shall plan and acquire new Resources on a system-wide least cost, least risk basis. Prudently incurred investments in Resources will be reflected in rates consistent with the laws and regulations in each State.

XIII. Sustainability of Protocol

A. Issues of Interpretation

If questions of interpretation of the Protocol arise during rate proceedings and/or audits of results of PacifiCorp's operations, parties will attempt to resolve them with reference to the intent of the parties who have supported the ratification of the Protocol.

B. MSP Standing Committee

1. An MSP Standing Committee will be organized consisting of one member or delegate of each Commission. The chair of the MSP Standing Committee will be elected each year by the members of the Committee.

2. The MSP Standing Committee will appoint a Standing Neutral, at the Company's expense, to facilitate discussions among States, monitor issues and assist the MSP Standing Committee.

3. At least once during each calendar year, the Standing Neutral will convene a meeting of the MSP Standing Committee and interested parties from all States for the purpose of discussing and monitoring emerging inter-jurisdictional issues facing the Company and its customers. The meetings will be open to all interested parties.

4. The MSP Standing Committee will consider possible amendments to the Protocol that would be equitable to PacifiCorp customers in all States and to the Company. The MSP Standing Committee will have discretion to determine how best to encourage consensual resolution of issues arising under the Protocol. Its actions may include, but will not be limited to: a) appointing a committee of interested parties to study an issue and make recommendations, or b) retaining (at the Company's expense) one or more disinterested parties to make advisory findings on issues of fact arising under the Protocol.

5. The MSP Standing Committee has the immediate assignments of: (a) developing one or more mechanisms that could be implemented in

a timely manner in the event that load growth studies show a material and sustained net harm to particular States from the implementation of the IRP; and (b) reviewing Seasonal Resources criteria and allocation, including seasonal patterns of Resource operation to determine seasonality, treatment of associated off-system sales, the value of operating reserves provided from Seasonal Resources, criteria to define seasonal Exchange Contracts and methods for allocating the costs of seasonal exchange returns.

6. The work of the MSP Standing Committee will be supported by sound technical analysis. A party supporting ratification of the Protocol will work in good faith to address issues being considered by the MSP Standing Committee.

C. Protocol Amendments

Proposed amendments to the Protocol will be submitted by PacifiCorp to each Commission for ratification. The Protocol will only be deemed to have been amended if each of the Commissions who have previously ratified the Protocol ratifies the amendment. PacifiCorp will not seek Commission ratification of any amendment to the Protocol unless and until it has provided interested parties with at least six months advance notice of its intent to do so and endeavored to obtain consensus regarding its proposed amendment. A party's initial support or acceptance of the Protocol will not bind or be used against that party in the event that unforeseen or changed circumstances cause that party to conclude that the Protocol no longer produces just and reasonable results. Prior to departing from the terms of the Protocol, consistent with their legal obligations, Commissions and parties will endeavor to cause their concerns to be presented at meetings of the MSP Standing Committee and interested parties from all States in an attempt to achieve consensus on a proposed resolution of those concerns.

D. Interdependency among Commission Approvals

The Protocol has been developed by the parties as an integrated, inter-dependent, organic whole. Therefore, final ratification of the Protocol by any of the Commissions of Oregon, Utah, Wyoming and Idaho, is expressly conditioned upon similar ratification of the Protocol by the other mentioned Commissions, without any deletion or alteration of a material term, or the addition of other material terms or conditions. Upon any rejection of the Protocol, or any material deletion, alteration, or addition to its terms, by any one or more of the four Commissions, the Commissions who have previously conditionally adopted the Protocol shall initiate proceedings to determine whether they should reaffirm their prior ratification of the Protocol, notwithstanding the action of the other Commission or Commissions. The Protocol shall only be in effect for a State upon final ratification by its Commission. The Company will continue to bear the risk of inconsistent allocation methods among the States.

Protocol - Appendix A

Defined Terms

For purposes of this Protocol, the following terms will have the following meanings:

"Annual Embedded Costs – All Other" means PacifiCorp's total normalized annual production costs expressed in dollars per MWh (not including costs associated with Hydro-Electric Resources, Mid-Columbia Contracts and Existing QF Contracts) as recorded in the FERC Accounts listed in Appendix E to the Protocol.

"Annual Embedded Costs – Hydro-Electric Resources" means PacifiCorp's total normalized annual production costs, expressed in dollars per MWh, associated with Hydro-Electric Resources as recorded in the FERC Accounts listed in Appendix E to the Protocol.

"Annual Mid-Columbia Contract Costs" means annual net costs incurred by PacifiCorp under the Mid-Columbia Contracts, expressed in dollars per MWh.

"APS Contract" means the Long-Term Power Transactions Agreement between PacifiCorp and Arizona Public Service Company dated September 21, 1990, as amended.

"Coincident Peak" means the hour each month that the combined demand of all PacifiCorp retail customers is greatest. In States using an historic test period, Coincident Peak is based upon actual, metered load data. In States using future test periods, Coincident Peak is based upon forecasted loads.

"Company" means PacifiCorp.

"Commission" means a utility regulatory commission in a State.

"Comparable Resource" means Resources with similar capacity factors, start-up costs, and other output and operating characteristics.

"Customer Ancillary Service Contracts" means contracts between the Company and a retail customer pursuant to which the Company pays the customer for the right to curtail service so as to lower the costs of operating the Company's system.

"Demand-Related Costs" means capital and other Fixed Costs incurred by the Company in order to be prepared to meet the maximum demand imposed upon its system.

"Demand-Side Management Programs" means programs intended to improve the efficiency of electricity use by PacifiCorp's retail customers.

"Direct Access Customers" means retail electricity consumers located in PacifiCorp's service territory that either: a) purchase electricity directly from a supplier other than PacifiCorp pursuant to a Direct Access Program or b) elect to have all or a portion of the electricity they purchase from PacifiCorp priced based upon market prices rather than the Company's traditional cost-of-service rate. If a State implements a Direct Access Program pursuant to which Freed-Up Resources are transferred between customer classes, such transfers shall be considered Direct Access Purchases and Sales.

"Direct Access Program" means a law or regulation that permits retail consumers located in PacifiCorp's service territory to purchase electricity directly from a supplier other than PacifiCorp.

"Direct Access Purchases and Sales" means Wholesale Contracts and Short-Term Purchases and Sales entered into by PacifiCorp either to supply customers who have become Direct Access Customers or to dispose of Freed-Up Resources.

"Energy-Related Costs" means costs, such as fuel costs that vary with the amount of energy delivered by the Company to its customers during any hour plus any portion of Fixed Costs that have been deemed to have been incurred by the Company in order to meet its energy requirements.

"Existing QF Contracts" means Qualifying Facility Contracts entered into prior to the effective date of this Protocol, but not such contracts renewed or extended subsequent to the effective date of this Protocol.

"Existing Resources" means Resources whose costs were committed to prior to Direct Access Customers making an election to permanently forego being served by the Company at a cost-of-service rate.

"Exchange Contracts" means Wholesale Contracts pursuant to which PacifiCorp accepts delivery of power at one place and/or point in time and delivers power at a different place and/or point in time.

"FERC" means the Federal Energy Regulatory Commission.

"Fixed Costs" means costs incurred by the Company that do not vary with the amount of energy delivered by the Company to its customers during any hour.

"Freed-Up Resources" means Resources made available to the Company as a result of its customers becoming Direct Access Customers.

"General Plant" means capital investment included in FERC accounts 389 through 399.

"Grant County" means Public Utility District No. 2 of Grant County, Washington

"Hydro-Electric Resources" means Company-owned hydro-electric plants located in Oregon, Washington or California.

"Intangible Plant" means capital investment included in FERC accounts 301 through 303.

"Load-Based Dynamic Allocation Factor" means an allocation factor that is calculated using States' monthly energy usage and/or States' contribution to monthly system Coincident Peak.

"Mid-Columbia Contracts" means the Power Sales Contract with Grant County dated May 22, 1956; the Power Sales Contract with Grant County dated June 22, 1959;the Priest Rapids Project Product Sales Contract with Grant County dated December 31, 2001; the Additional Products Sales Agreement with Grant County dated December 31, 2001; the Priest Rapids Project Reasonable Portion Power Sales Contract with Grant County dated December 31, 2001; the Power Sales Contract with Douglas County PUD dated September 18, 1963; the Power

Sales Contract with Chelan County PUD dated November 14, 1957 and all successor contracts thereto.

"Net Power Costs" means PacifiCorp's fuel and wheeling expenses and costs and revenues associated with Wholesale Contracts, Seasonal Contracts, Short-Term Purchases and Sales and Non-Firm Purchases and Sales.

"New QF Contracts" means Qualifying Facility Contracts that are not Existing QF Contracts.

"New Resources" means Resources that are not Existing Resources as established pursuant to Paragraph XA2 of the Protocol.

"Non-Firm Purchases and Sales" means transactions at wholesale that are not Wholesale Contracts, Seasonal Contracts, Short-Term Purchases and Sales or Direct Access Purchases and Sales.

"Portfolio Standard" means a State law or regulation that requires PacifiCorp to acquire: (a) a particular type of Resource, (b) a particular quantity of Resources, (c) Resources in a prescribed manner or (d) Resources located in a particular geographic area.

"Protocol" means this PacifiCorp Inter-Jurisdictional Cost Allocation Protocol.

"Qualifying Facility Contracts" means contracts to purchase the output of small power production or cogeneration facilities developed under the Public Utility Regulatory Policies Act of 1978 (PURPA) and related State laws and regulations.

"Resources" means Company-owned and leased generating plants and mines, Wholesale Contracts, Seasonal Contracts, Short-Term Purchases and Sales and Non-firm Purchases and Sales.

"Seasonal Contract" means a Wholesale Contract pursuant to which the Company acquires power for five or less months during more than one year.

"Seasonal Resource" means: (a) a SCCT owned or leased by the Company, (b) any Seasonal Contract or c) Cholla Unit 4.

"Short-Term Purchases and Sales" means physical or financial contracts pursuant to which PacifiCorp purchases, sells or exchanges firm power at wholesale and Customer Ancillary Service Contracts that are less than one year in duration.

"Simple-Cycle Combustion Turbines" or "SCCTs" means simple-cycle combustion turbine generating units.

"Special Contract" means a contract entered between PacifiCorp's and one of its retail customers with prices, term and conditions different from otherwise-applicable tariff rates. Special Contracts may provide for a discount to reflect Customer Ancillary Services Contract attributes.

"Special Contract Ancillary Service Discounts" means discounts from otherwise applicable rates provided for in Special Contracts.

"Standing Neutral" means an independent party, with experience in electric utility ratemaking, retained by the MSP Standing Committee to facilitate discussions among States, monitor issues and assist the MSP Standing Committee as required.

"State Resources" means Resources whose costs are assigned to a single State to accommodate State-specific policy preferences.

"System Resources" means Resources that are not Seasonal Resources, Regional Resources, State Resources or Direct Access Purchases and Sales and whose associated costs and revenues are allocated among all States on a dynamic basis.

"State" means Utah, Oregon, Wyoming, Idaho, Washington or California.

"Variable Costs" means costs incurred by the Company that vary with the amount of energy delivered by the Company to its customers during any hour.

"Wholesale Contracts" means physical or financial contracts pursuant to which PacifiCorp purchases, sells or exchanges firm power at wholesale and Customer Ancillary Service Contracts that have a term of one year or longer.