BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

In the Matter of the Joint Application of PACIFICORP and PACIFICORP, WASHINGTON, INC. for an Order Approving (1) the Transfer of Distribution Property from PacifiCorp to an Affiliate, PacifiCorp, Washington, Inc., (2) the Transfer by PacifiCorp of Certain Utility Property to an Affiliate, the Service Company, and (3) the Proposed Accounting Treatment for Regulatory Assets and Liabilities, and an Order Granting an Exemption under RCW 80.08.047 for the Issuance or Assumption of Securities and Encumbrance of Assets by PacifiCorp, Washington, Inc. and/or PacifiCorp	Docket No. UE-00____ JOINT APPLICATION

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STATE OF WASH. UTIL. AND TRANSP. COMMISSION

PacifiCorp (or "the Company") and PacifiCorp, Washington, Inc. (together, the "Applicants") file this application pursuant to the provisions of Chapter 80.12 RCW, RCW 80.08.040, RCW 80.08.130 and RCW 80.08.047, and WAC 480-143-120. RCW 80.12.020 requires Washington Utilities and Transportation Commission ("Commission") approval of any transaction involving the disposition of public utility property necessary or useful in the performance of a public service company's duties to the public.[1] RCW 80.08.040 and RCW 80.08.130 require public service companies to make a filing with the Commission before issuing stocks, bonds, notes, or other evidences of indebtedness, or assuming any obligation in respect of securities. RCW 80.08.047 provides that the Commission may exempt any security for which a filing is required under Chapter 80.08 RCW, or any electrical company subject to the provisions of the chapter, if the

[1] Under its general authority under RCW 80.01.040 and Chapter 80.12.020, the Commission has also asserted jurisdiction over corporate reorganizations involving Washington public service companies.

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application of the chapter to such security or such utility "is not required by the public interest."

PacifiCorp proposes to implement a corporate restructuring. Under the proposed restructuring, PacifiCorp will retain ownership and operation of its generating assets and change its name to "PacifiCorp Generation Company." PacifiCorp will also retain ownership of its transmission assets, although control over and operation of these transmission assets are proposed to be transferred to a regional transmission organization, RTO West.[2] PacifiCorp's remaining non-transmission utility assets will be allocated among six new state electric companies – including PacifiCorp, Washington, Inc. – and a service company (the "service company"). Upon completion of the restructuring, the service company will be renamed "PacifiCorp." Above all of these companies in the corporate structure will be a newly formed, non-operating U.S. holding company, PacifiCorp Holdings, Inc.[3] The corporate structure of PacifiCorp and its related entities following the restructuring is shown in Application Exhibit 1.

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[2] PacifiCorp is not, by this Application, seeking Commission approval for the transfer of control and operation of PacifiCorp's transmission assets to RTO West. Details of those arrangements are still being developed. During the second quarter of 2001, PacifiCorp expects to amend the Application in this docket to seek the necessary regulatory approvals for that transfer.

[3] As part of the corporate restructuring and prior to the transfer to PacifiCorp, Washington, Inc., it is proposed that (1) NA General Partnership will transfer all of the common stock of PacifiCorp to PacifiCorp Holdings, Inc., and (2) PacifiCorp will transfer all of the common stock of PacifiCorp, Washington, Inc. to PacifiCorp Holdings, Inc. Commission approval of these transfers will be sought in a separate, subsequent application of PacifiCorp Holdings, Inc. The transfer of the common stock of PacifiCorp to PacifiCorp Holdings, Inc. will facilitate the further separation of PacifiCorp's non-utility operations, including PacifiCorp Group Holdings Company, from its regulated utility operations and should proceed irrespective of the Commission's actions with respect to this Joint Application. In that separate application, PacifiCorp Holdings, Inc. will therefore seek prompt approvals of this transfer. In general, this separation was contemplated in the various commitments made by Scottish Power and PacifiCorp in the merger approval process.

The new Washington electric company, for purposes of this Application referred to as "PacifiCorp, Washington, Inc." ("PacifiCorp Washington"), would continue to serve PacifiCorp's electricity customers in Washington, and would be a public service company subject to the jurisdiction of the Commission. PacifiCorp Washington would acquire the necessary power supply to serve its utility customers pursuant to a power sales contract between PacifiCorp Washington and PacifiCorp Generation Company ("Power Supply Contract"). The Power Supply Contract will provide for PacifiCorp Washington's current requirements; future requirements will be met through additional agreements with PacifiCorp Generation Company or third-party suppliers.

By this Application, Applicants seek the following regulatory approvals in connection with the proposed corporate restructuring:

- Authorization to transfer PacifiCorp's distribution property within the state of Washington to PacifiCorp Washington,
- Authorization to transfer of certain of PacifiCorp's utility property to the service company, and
- Approval of proposed accounting treatment for the regulatory assets and liabilities (such as deferred taxes and deferred pension costs) associated with (1) the assets transferred by PacifiCorp to PacifiCorp Washington, and (2) an allocable share of the generation and transmission assets supporting service to PacifiCorp Washington under the Power Supply Contract.

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In addition, Applicants request an exemption under RCW 80.08.047 for the issuance of stock and issuance or assumption of indebtedness by PacifiCorp Washington and/or PacifiCorp in connection with the transfer of distribution and service assets from PacifiCorp to PacifiCorp Washington (and other companies), the proposed encumbrance of such property, and the proposed issuance of short-term debt by PacifiCorp Washington.

I. APPLICATION

A. NAME AND ADDRESS OF APPLICANTS

The full and correct name and business address of Applicants are as follows:

PacifiCorp
Suite 600
825 NE Multnomah
Portland, OR 97232

PacifiCorp Washington
Suite 600
825 NE Multnomah
Portland, OR 97232

B. CORPORATE INFORMATION

PacifiCorp, an Oregon corporation, was incorporated on August 11, 1987. PacifiCorp is authorized to transact business in the states of Oregon, California, Idaho, Utah, Washington, and Wyoming. PacifiCorp Washington will be organized as an Oregon corporation for the purposes of acquiring and operating PacifiCorp's distribution assets in the state of Washington. PacifiCorp Washington and the other state electric companies have not been organized, pending applicable regulatory approval.

C. CORRESPONDENCE AND PLEADINGS

All correspondence or communications regarding this application should be addressed to:

For Applicants:

Andrea Kelly
Director, Regulation
PacifiCorp
Suite 800
825 NE Multnomah
Portland, OR 97232
Tel (503) 813-6043
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With a Copy to:

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George M. Galloway
Stoel Rives LLP
Suite 2600
900 SW Fifth Avenue
Portland, OR 97204
Tel (503) 294-9306
Fax (503) 220-2480

D. PRINCIPAL OFFICERS

The names, titles and address of Applicants' principal officers are as follows:

PacifiCorp

Alan V. Richardson
President and Chief Executive Officer
Suite 2000
825 NE Multnomah
Portland, OR 97232

William D. Landels
Executive Vice President
Suite 2200
One Utah Center
Salt Lake City, Utah

Karen K. Clark
Senior Vice President and Chief Financial Officer
Suite 2000
825 NE Multnomah
Portland, OR 97232

Andrew N. MacRitchie
Senior Vice President
Suite 2000
825 NE Multnomah
Portland, OR 97232

PacifiCorp Washington

[to be determined]

Terry Hudgens
Senior Vice President
Suite 2000
825 NE Multnomah
Portland, OR 97232

E. DESCRIPTION OF BUSINESS

PacifiCorp is a public service company providing retail electric service to customers in the six western states of Oregon, Washington, California, Idaho, Utah and Wyoming and also engaging in wholesale electricity sales. PacifiCorp Washington will provide retail electric service in Washington. PacifiCorp Holdings, Inc. will be organized as a new non-operating U.S. holding company to hold all of the common stock of PacifiCorp and the new state electric companies and the service company, as well as PacifiCorp's investments in non-utility operations such as PacifiCorp Group Holdings Company.

F. DESCRIPTION OF ASSETS TO BE TRANSFERRED BY PACIFICORP

1. Assets to be Transferred to PacifiCorp Washington

The assets which PacifiCorp proposes to transfer to PacifiCorp Washington generally are those distribution system assets located in the state of Washington used to serve the Company's existing electric customers in Washington. They include the following:

- Distribution poles and wires, land, right-of-ways
- Distribution assets assigned to Washington by virtue of situs in Washington
- Movable distribution assets (trucks, equipment, etc.) used to serve Washington customers
- Meters used to serve Washington customers

In addition, special contracts with customers in Washington will be assigned by the Company to PacifiCorp Washington. Included as Application Exhibit 2 is a form of Contribution and Assumption Agreement for the proposed transfer of assets to PacifiCorp Washington. It

should be noted that changes to this form of agreement may be necessary to reflect developments in the regulatory process and further analysis of the assets and liabilities to be transferred.

Following the corporate restructuring and consistent with its obligations as a public utility, PacifiCorp Washington will be responsible for providing the following functions: Maintenance of transmission and distribution facilities in Washington; customer service; and management, regulatory and public affairs functions necessary to support operation of the electric company within Washington and associated filings and regulatory approvals from the Commission. PacifiCorp Washington may contract with the service company for some of the resources to perform these functions.

2. Assets to be Transferred to Other State Electric Companies

The assets which PacifiCorp proposes to transfer to other new state electric companies, for purposes of this Application referred to as "PacifiCorp, Oregon, Inc.," "PacifiCorp, Utah, Inc.," "PacifiCorp, Idaho, Inc.," "PacifiCorp, Wyoming, Inc.," and "PacifiCorp, California, Inc.," respectively, generally are those distribution system assets located in those respective states used to serve the Company's existing electric customers in those states. The description of such assets are the same as set forth above with respect to PacifiCorp Washington.

3. Assets to be Transferred to the Service Company

The assets which PacifiCorp proposes to transfer to the service company generally are those assets used to perform the following centralized functions: distribution asset management; transmission asset management and regulation; transmission and distribution construction; call center operations; billing/customer service activities; outage and other

integrated, inseparable systems; procurement; meter reading and installation; corporate risk management; fleet management scheduling; load and resource planning; supply bid management for new regulated load; wholesale billing, accounting, settlements (if performed by an integrated, inseparable system); finance; human resources; and senior management and corporate staff support (except personnel remaining with PacifiCorp or assigned to a particular state electric company). As noted above, the service company may contract with PacifiCorp Washington to provide some of the functions for which PacifiCorp Washington is responsible.

The assets to be transferred to the service company include the following:

- Call centers
- Billing system/customer service
- Outage and other integrated, inseparable systems
- Other assets that serve company-wide functions, such as telecommunications system, SAP, etc.

Included as Application Exhibit 3 is a form of Contribution and Assumption Agreement for the proposed transfer of assets to the service company. Changes to this form of agreement may be necessary, for the reasons noted above.

4. *Transfer Terms*[4]

PacifiCorp proposes to transfer the Washington distribution assets to PacifiCorp Washington in exchange for 1,000 shares of common stock of PacifiCorp Washington and, except as described below, a note secured by these assets. The Company's preliminary analysis indicates that the principal amount of the note will be approximately $110 million,

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[4] It should be noted that the dollar figures appearing in this section are based upon the Company's preliminary analysis, and these estimates are subject to revision upon further analysis. The structure and terms of the transaction are intended to create a transfer arrangement that does not give rise to adverse tax consequences to the Company.

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which is intended to achieve a 50% equity ratio for PacifiCorp Washington. The note would be payable in full in less than one year after issuance and all payments of principal and interest would be used to service existing indebtedness of PacifiCorp. PacifiCorp Washington will record the distribution assets on its books at PacifiCorp's net book value. PacifiCorp proposes to transfer assets to the other new state electric companies on similar terms. Accordingly, PacifiCorp would receive common stock and, except as noted below, secured promissory notes from these companies as follows: PacifiCorp, Oregon, Inc.: $500 million; PacifiCorp, Utah, Inc.: $600 million; PacifiCorp, Idaho, Inc.: $75 million; PacifiCorp, Wyoming, Inc.: $150 million; and PacifiCorp, California, Inc.: $75 million. As with PacifiCorp Washington, these estimated amounts have also been set to achieve a 50% equity ratio for each of the state electric companies.

Instead of receiving notes from the new state electric companies, PacifiCorp may incur long-term debt from external lenders, secured by the distribution assets, that would be assumed by these state electric companies in connection with the transfers. PacifiCorp would receive the proceeds of any such external debt but would have no further obligation with respect to the debt after it has been assumed by the state electric companies. It is possible, however, that the external debt arrangements would not be completed prior to the transfers. In that circumstance, PacifiCorp would receive short-term notes from the state electric companies as described above, and the state electric companies subsequently would incur the external debt, the proceeds of which would be used to retire the notes payable to PacifiCorp. As a result, PacifiCorp may incur long-term external debt in the aggregate principal amount of $1,510

million, of which $110 million would be assumed by PacifiCorp Washington and the balance by the other state electric companies, and PacifiCorp Washington may incur $110 million of short-term internal debt and $110 million of long-term external debt to refinance any internal debt incurred.

PacifiCorp proposes to transfer the assets described in paragraph 3 above to the service company in exchange for all of the capital stock of the service company and a note, secured by these assets, in the principal amount of $160 million. The note would be payable in full in less than one year after issuance and all payments of principal and interest would be used to service existing indebtedness of PacifiCorp. As an alternative, PacifiCorp may incur $160 million of long-term external debt that would be assumed by the service company.

G. DESCRIPTION OF SECURITIES TO BE ISSUED OR ASSUMED BY PACIFICORP WASHINGTON AND PACIFICORP[5]

As described above, PacifiCorp Washington will issue 1,000 shares of common stock, representing all of its outstanding capital stock, to PacifiCorp and one or more notes, secured by the distribution assets, to PacifiCorp, or external lenders, as described below. The purpose for which such securities will be issued is the acquisition of utility property or the refunding of obligations issued for such purposes.

PacifiCorp may issue up to an aggregate of approximately $1.7 billion of long-term external debt that would be assumed in the transfers by the state electric companies and the service company, including $110 million to be assumed by PacifiCorp Washington. If the

[5] It should be noted that the dollar figures appearing in this section are based upon the Company's preliminary analysis, and these estimates are subject to revision upon further analysis in order to achieve the desired objective of a 50% equity ratio for each of the state electric companies and the service company. It

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external debt is not available at the time of the transfers, the state electric companies and the service company would issue short-term notes as described above. Once the external debt is arranged, the proceeds would be used to refinance the notes payable to PacifiCorp. Accordingly, PacifiCorp Washington may assume or incur up to $110 million aggregate principal amount of debt secured by the distribution assets it obtains from PacifiCorp, and PacifiCorp may incur up to an aggregate of approximately $1.7 billion in external debt, secured by the distribution and service assets, that would be assumed by the state electric companies and the service company in connection with the transfers.

In addition, PacifiCorp Washington proposes to enter into short-term debt arrangements to provide an initial source of working capital. This debt will take the form of unsecured short-term promissory notes, borrowings from commercial banks, commercial paper, or borrowings from PacifiCorp Holdings, Inc. or any of its affiliates. The aggregate principal amount of short-term debt under such arrangements will not exceed $50 million.

Applicants respectfully request that the Commission grant an exemption under RCW 80.08.047 for the issuance of stock and issuance or assumption of indebtedness by PacifiCorp Washington and/or PacifiCorp in connection with the transfer of distribution and service assets from PacifiCorp to PacifiCorp Washington (and other new companies), the proposed encumbrance of such property, and the proposed issuance of short-term debt by PacifiCorp Washington to provide an initial source of working capital. RCW 80.08.047 provides that:

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should be further noted that the structure and terms of the transaction are intended to create a transfer arrangement that does not give rise to adverse tax consequences to the Company.

> The Commission may from time to time by order or rule, and subject to such terms and conditions as may be prescribed in the order or rule, exempt any security . . . for which a filing is required under this chapter or any electrical or natural gas company . . . from the provisions of this chapter if it finds that the application of this chapter to such security, . . . electrical or natural gas company . . . is not required by the public interest.

The Commission is reviewing the "public interest" of the proposed corporate restructuring under Chapter 80.12 RCW and WAC 480-143-170. Given that the proposed issuances, assumptions and encumbrances of property referred to above are to effectuate the restructuring, further review of these individual elements of the transaction is unnecessary. Accordingly, an exemption would be appropriate under RCW 80.08.047.[6]

H. PROPOSED ACCOUNTING TREATMENT

The Company requests approval of proposed accounting treatment for the regulatory assets and liabilities (such as deferred taxes and deferred pension costs) associated with (1) the assets transferred by PacifiCorp to PacifiCorp Washington, and (2) an allocable share of the generation and transmission assets supporting service to PacifiCorp Washington under the Power Supply Contract. Specifically, the Company proposes to remove such regulatory assets and liabilities from the books of PacifiCorp and transfer such balances to the books of PacifiCorp Washington, for recovery through PacifiCorp Washington's tariffs.

I. CONTINUING OPERATIONS OF PACIFICORP GENERATION COMPANY

Following the corporate restructuring, PacifiCorp Generation Company will perform all generation and mining management, including plant/mine construction, plant/mine operation

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[6] In its Fifth Supplemental Order Accepting Stipulations, Approving Transaction, and Granting Securities Issuance Exemption in Docket No. UE-981627, *In the Matter of the Application of PacifiCorp and Scottish Power plc*, the Commission found that further review of the securities transaction was unnecessary where the

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and maintenance, and plant dispatch and scheduling. In addition, PacifiCorp Generation Company will provide wholesale trading, customer service and risk management. Related to these functions, PacifiCorp Generation Company will own the generation and mining assets, including: mines, plants, (and related buildings, land and water rights), step-up transformers, generation systems (including trading, risk management and plant), generation dispatch and scheduling, and power sales contracts. PacifiCorp Generation Company may also retain control of some low voltage transmission assets, depending on how RTO West is ultimately structured.

J. REASONS FOR THE CORPORATE RESTRUCTURING

PacifiCorp's corporate structure and the manner in which it establishes retail prices have been fundamentally unchanged for more than 35 years. A number of developments have occurred and are continuing to occur in the electric utility industry that have caused the Company to conclude that a fundamental change in the Company's corporate structure is both imperative and overdue. These developments include: (1) direct access initiatives in Oregon and elsewhere; (2) the need to provide independent control of the Company's transmission assets, consistent with expectations of FERC; (3) fundamental changes in wholesale power markets and the risk of generation supply shortages; (4) industry consolidation; (5) the divergent policy goals of the state commissions that regulate the Company; (6) the limitations of traditional cost-of-service regulation; and (7) the breakdown of the Company's interjurisdictional cost allocation process. These developments are discussed briefly below.

Commission found the transaction was in the public interest and the purpose of the securities issuance was to effectuate the transaction. (Order, pp. 14-15)

1. Direct Access Initiatives

The different states served by PacifiCorp have had different attitudes and responses to the notion of mandating or permitting retail competition in the sale of electricity. The proposed corporate restructuring would enable each state to pursue (or not pursue) direct access in its own way and at its own pace without adverse impact to customers in other states or losses to the Company's shareholders. The direct access measure in Oregon, S.B. 1149, was followed by the Oregon Public Utility Commission's development and adoption of implementing administrative rules ("Oregon Rules"). A critical element of the Oregon Rules is a requirement that both Oregon "electric companies" (Portland General Electric Company and PacifiCorp) file proposed "resource plans" with the Oregon Commission. The resource plan process will require PacifiCorp to identify: (1) a portion of its total generating resources that it proposes to allocate to Oregon; (2) specify what portion of this Oregon share should be dedicated to serve the current and reasonably-expected loads of residential and small non-residential customers; and (3) specify what portion should be "released to the competitive market" by either being deregulated or sold. The Oregon resource planning process presents significant new issues for PacifiCorp and the regulators in all of its jurisdictions.

Previously, fixed shares of PacifiCorp's specific generating resources were not allocated among its various state jurisdictions. The perspective has been that PacifiCorp has a single generating system that is dispatched for the benefit of all of its customers. Generally speaking, the fixed costs of that single system have been allocated based upon each state's relative contribution to system peak demand in any given year and the variable costs have been allocated based upon each state's relative energy consumption during any given year.

PacifiCorp has concluded that the expectation in the Oregon Rules that a portion of its generating resources be "released to the competitive market" cannot be achieved in the context of the current system of interjurisdictional cost allocations because, among other reasons, the current system assumes dynamic changes in cost assignments whereas a permanent "release" to the market assumes a fixed interjurisdictional dedication of resources.

The Oregon Rules also contemplate that PacifiCorp's cost-of-service rates to residential customers, and those small non-residential customers who do not elect direct access, will be based upon the cost of those generating resources permanently dedicated to serving those customers as reflected in the resource plan. This too is contrary to past practice, which based cost-of-service rates upon an allocation of the costs of operating PacifiCorp's entire system. PacifiCorp does not believe that a meaningful cost-of-service rate can be derived from a relatively small subset of its generating resources because that subset does not and will not operate independent from the whole. Additionally, the apparent average cost of operating the entire system, absent the portion of the system allocated to Oregon, will be different (and likely higher) than the actual average cost of operating the entire system. That is to say, an inappropriate balkanization of the Company's generating system could result in an increase in the cost of service in some or all of PacifiCorp's retail jurisdictions.

Finally, the Oregon Rules contemplate that to the extent Oregon cost-of-service customers "outgrow" the resources allocated to them in the resource plan, additional resources acquired to serve them will not be included in the Company's Oregon rate base and that such incremental requirements will be served at a market price. This is contrary to the past practice

of assuming that all new rate base additions are constructed to serve the entire system and allocated accordingly. It is not at all clear how Oregon's expectations can be accommodated within the current interjurisdictional cost allocation system.

Moreover, the direct access initiatives are not limited to Oregon. A legislative task force is studying the matter in Utah. The Wyoming Commission has encouraged the Company and its industrial customers to determine whether a consensus proposal can be developed. Given the states' different attitudes and responses to the notion of mandating or permitting retail competition in the sale of electricity, the Company needs to be structured in a manner that will enable each state to pursue (or not to pursue) direct access in its own way and at its own pace. The proposed restructuring is intended to accomplish this result.

2. *Independent Control of Transmission Assets*

Developments with respect to PacifiCorp's transmission system are driven by FERC Order No. 2000, which requires all public utilities under its jurisdiction (including PacifiCorp) to file, by October 15, 2000, either: (a) a comprehensive filing to create a regional transmission organization ("RTO") or (b) a detailed explanation of why such a filing could not be made. FERC took this initiative because it recognizes that the demands placed on the transmission grid have changed with the changing structure of the electrical industry. FERC determined that independent RTOs offering transmission products and services on a fair and non-discriminatory basis are necessary for competitive power markets to succeed. FERC believes that RTO formation should result in better management of congestion across constrained transmission paths, resolve conflicts in scheduling between utilities, promote more competitive power markets and more efficiently manage differences in transmission

maintenance practices and schedules. Moreover, FERC concluded that a single operator of a regional grid would eliminate reliability constraints caused by separate utility decision making, assure better coordination during system emergencies and provide improved coordination of generation and transmission system outages.

In response to this FERC initiative, PacifiCorp took a leadership role in ensuring that the benefits of an RTO are maximized. It joined with seven other investor-owned utilities and the Bonneville Power Administration (commonly referred to as "the filing utilities") to form a non-profit corporation known as "RTO West" to fund and develop an RTO proposal. RTO West will encompass transmission facilities currently in the Northwest Power Pool and those owned by the Nevada Power Company. On October 23, 2000, the filing utilities filed their proposal to form RTO West with FERC. A copy of the filing is included as Application Exhibit 4. During the second quarter of 2001, PacifiCorp expects to amend this Application to seek approval from the Commission for the transfer of control of these transmission assets to RTO West.

3. *Wholesale Power Markets and New Generation*

The extreme volatility of prices in Western wholesale markets during recent months has implications for PacifiCorp and its retail customers. For the past several decades, PacifiCorp participated in wholesale markets as a means of disposing of short-term surpluses of generation and dispatching its system in a manner that lowered its costs to its retail customers. Until the mid- to late-1990s, the Company's wholesale power marketing activities centered around long-term contracts that generated attractive margins with relatively little risk. The margins from these contracts were credited against retail prices under the "revenue credit" method and

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contributed substantially to moderating or eliminating retail price increases. Because the wholesale power market has now grown far more competitive and because of the uncertainty surrounding future prices, the market has shifted to relatively short-term transactions with razor-thin margins. Without incurring risks on behalf of the Company's retail customers that may be imprudent, the Company is no longer able to generate total margins from new wholesale sales that are sufficient to materially reduce retail prices.

As the "rules of the game" are clarified, the market will operate in a more predictable and satisfactory fashion. The proposed restructuring should assist in clarifying the rules, roles and responsibilities for the construction of new generation in each of the states. The proposed Power Supply Contract provides a means of resolving the increasing dilemma posed by the "revenue credit" method of dealing with the Company's wholesale sales. The Contract is intended to be structured in a fashion that affords PacifiCorp's retail customers the remaining economic benefits of existing generation and long term sales contracts, while not relying on new wholesale contracts to moderate retail prices. The terms of the Contract also establish that the Company's state electric companies will have the option of buying future power requirements from PacifiCorp Generation Company or third-party suppliers.

4. Industry Consolidation and Related Distribution Issues

As described in the accompanying prefiled testimony of Messrs. MacRitchie, Wright and Furman, changes are also occurring in the industry with respect to the distribution function. There is a world-wide trend toward the consolidation of the distribution function. It appears that in order to optimize efficiency and customer service in the distribution, metering and billing functions, a customer base much larger than PacifiCorp's is required. Each year,

there are fewer and fewer providers of distribution services as a result of corporate mergers and acquisitions that are motivated by a desire to reduce costs and remain competitive.

PacifiCorp does not necessarily view this as a positive development. On one hand, the Company understands that customers and shareholders will continue to demand greater and greater efficiency and levels of customer service and that they are entitled to do so. On the other hand, the Company appreciates that customers and regulators may have concerns about consolidation to the extent that it results in a sense of isolation from the distribution services provider. In the Company's view, a means needs to be found to benefit from economies of scale, while retaining a close connection with local customers, communities and regulators. The proposed restructuring is intended to meet these competing objectives.

5. *State Regulatory Policies*

PacifiCorp's regulators do not share similar views in respect to these industry developments. As indicated previously, the regulators and legislators in the states in which PacifiCorp operates have highly divergent views as to the appropriate nature and timing of direct access. These regulators also have differing views concerning the desirability of load growth and how any load growth that does occur should be met. Some of the Company's regulators are more enthusiastic about renewable resources and demand side management than others. The Oregon Public Utility Commission is supportive of demand-side and renewable resources, but now expects them to be funded out of "public purpose charges" and no longer reflected in the Company's electricity rates. Some states favor the Company's construction of new coal plants. Others favor the Company meeting all future requirements from the market. Some regulators support special contracts that will further local economic development, others

are skeptical about such arrangements. Most of the commissions regulating the Company expect the continuation of a least-cost planning process, whereas S.B. 1149 appears to render such a process moot in respect to serving the Company's Oregon cost-of-service load.

The Company, under its current structure, is not well-positioned to respond to this diversity of approaches. The Company's policies tend to represent an amalgamation of responses to regulation that do not appear to cause any of the Company's regulators to conclude that the Company is being particularly responsive to their concerns. The proposed restructuring will accommodate this diversity by allowing each state to pursue -- and the Company to implement -- regulatory policies it deems appropriate without affecting customers in other states or causing the Company's shareholders to be unfairly treated.

6. Other Regulatory Approaches

As discussed in the accompanying prefiled testimony of Messrs. MacRitchie, Wright and Furman, traditional cost-of-service regulation can be viewed as cumbersome and providing scant incentives for utilities to innovate or become more efficient. Greater emphasis could be placed on benchmarking companies and rewarding (or at least not penalizing) companies who perform better than their peers. Commissions could develop new regulatory techniques that focus on how the average costs of performing any particular function compare to the average costs incurred by the Company's competitors. The result would be a more streamlined process directed at examining whether consumers are being well served at a reasonable price. The proposed restructuring will enable each commission to consider innovative alternatives to traditional cost-of-service regulation.

7. The Interjurisdictional Cost Allocation Process

As discussed in the accompanying prefiled testimony of Messrs. MacRitchie, Wright and Furman, the existing mechanisms for the interjurisdictional allocation of the Company's costs are clearly broken. The continued gridlock over interjurisdictional cost allocations results in the Company continuing to suffer a material earnings shortfall, and creates perverse incentives and disincentives, as illustrated by the recent sale of the Company's interest in the Centralia Plant and Mine. Although all of the affected state Commissions agreed that the sale was in the public interest, the Company was required to sustain a loss to accomplish the sale, even though the Plant and Mine were sold for hundreds of millions of dollars above their book value. Each of the Commissions had a rational and principled basis for their treatment of the Centralia gain, and yet the totality of their actions resulted in a patently unfair and irrational outcome. As described in the prefiled testimony accompanying this Application, it is likely that similar issues will arise when the Company considers making investments in new generation. The proposed restructuring is intended to address these issues.

K. BENEFITS FROM THE RESTRUCTURING

The proposed restructuring will produce the following benefits:

- Each of the jurisdictions within which the Company operates will be able to pursue regulatory policies that it deems appropriate without affecting customers in other states or causing the Company's shareholders to be unfairly treated.
- The restructuring will facilitate a comprehensive resolution of the issues discussed above, including direct access, interjurisdictional cost allocations and RTO formation. These issues are inextricably linked and require a comprehensive resolution. For example, many

people believe that in those states that favor some form of direct access, markets will not be fully competitive in the absence of an RTO. In turn, RTO formation may result in a reallocation of transmission costs which would be difficult to accomplish unless the Company's various jurisdictions understand how generation is going to be allocated. Any given state is hard-pressed to implement direct access in a manner that does not have adverse consequences on other jurisdictions or shareholders unless there is a permanent allocation of the economic benefits of the Company's existing generation among the states.

- The proposed restructuring will substantially improve how the Company is regulated. Each state commission will, in effect, have a single electric company to regulate and each will be free to consider innovative alternatives to traditional cost-of-service regulation. It can be expected that the most successful of those innovations will be adopted by other states.
- Creation of the service company would be a vehicle for each of the commissions to consider performance-based regulation of the transfer prices between the service company and the state electric companies that will benchmark the quality and cost of services being provided with less emphasis on traditional means of regulating affiliated interests.
- Creation of the service company could also afford all the Company's customers the benefits of economies of scale by contracting for services (at cost) with non-affiliates. At the same time, each commission would retain local control over the policies of the state electric company that it regulates.

- The proposed Power Supply Contract provides a means of resolving the increasing dilemma posed by the "revenue credit" method of dealing with the Company's wholesale sales. The Contract is intended to be structured in a fashion that affords PacifiCorp's retail customers the remaining economic benefits of existing generation and long term sales contracts, while not relying on new wholesale contracts to moderate retail prices.
- The proposed restructuring would eliminate (or at least substantially reduce) the controversy and disfunctionality associated with existing interjurisdictional allocation mechanisms.
- The proposed restructuring and follow-on legislative and regulatory actions should clarify the rules, roles and responsibilities for the construction of new generation in each of the states. In particular, the terms of the proposed Power Supply Contract establish that each of the state electric companies will have the option of buying future power requirements from PacifiCorp Generation Company or third-party suppliers. This ought to provide substantial opportunities and stimulus for a competitive independent power industry. With the rules, roles and responsibilities so clarified, PacifiCorp and independent power producers will be free to make investment decisions that are not unduly burdened by legislative and regulatory uncertainty.

II. MATERIAL ACCOMPANYING APPLICATION

A. PREFILED TESTIMONY ACCOMPANYING APPLICATION

The following witnesses sponsor prefiled testimony in support of this application:

(1) A panel comprising Andrew N. MacRitchie, Senior Vice President, PacifiCorp, Matthew R. Wright, Vice President, PacifiCorp, and Donald N. Furman, Vice

President, PacifiCorp, describes the policy reasons for the proposed corporate restructuring, and the benefits that will derive from the restructuring.

(2) C. Alex Miller, Vice President, PacifiCorp, describes how the Company proposes to accomplish this reorganization and the nature and timing of regulatory approvals that are required in respect to it. Mr. Miller's testimony also sets forth the principles for establishing the terms of the Power Supply Contract between PacifiCorp Generation Company and PacifiCorp Washington.

As soon as practicable and following workshops with affected parties, Applicants will file additional testimony that provides greater detail with respect to the terms of the Power Supply Contract and quantifies the economic impact of the proposed restructuring. Applicants are unable to include this testimony with this Application, as decisions made in the "resource plan" for purposes of implementing Oregon's industry restructuring legislation, SB 1149, affect a number of the economic analyses related to the proposed restructuring and state-by-state resource dedication decisions. The resource plan, which was filed with the Oregon Public Utility Commission on December 1, was developed in a public process involving representatives of the public and staff members from all of the state commissions except California. A copy of the resource plan is contained in Exhibit 5 to this Application. In addition, Applicants were not inclined to propose specific terms of a Power Supply Contract without an opportunity for further discussions with commission staff members and customer representatives with respect to it.

B. EXHIBITS ACCOMPANYING APPLICATION

Copies of the following documents accompany this application:

Exhibit 1	Corporate structure of PacifiCorp and related entities following restructuring;
Exhibit 2	Form of Contribution and Assumption Agreement dated as of _______________, 2001 between PacifiCorp and PacifiCorp Washington for the transfer by PacifiCorp of the Washington distribution assets to PacifiCorp Washington;
Exhibit 3	Form of Contribution and Assumption Agreement dated as of _______________, 2001 between PacifiCorp and the service company for the transfer by PacifiCorp of the service assets to the service company;
Exhibit 4	Filing dated October 23, 2000 with the Federal Energy Regulatory Commission for PacifiCorp to become a member of RTO West, a regional transmission organization; and
Exhibit 5	Oregon Resource Plan

III. REQUESTED APPROVALS

Applicants seek a Commission order which:

(a) Authorizes the transfer of distribution property within the state of Washington to PacifiCorp, Washington, Inc.,

(b) Authorizes the transfer of certain of the Company's utility property to the service company,

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(c) Approves the proposed accounting treatment for the regulatory assets and liabilities associated with (1) the assets transferred by PacifiCorp to PacifiCorp, Washington, Inc., and (2) an allocable share of the generation and transmission assets supporting service to PacifiCorp, Washington, Inc. under the Power Supply Contract, and

(d) Grants an exemption under RCW 80.08.047 for the issuance of stock and indebtedness by PacifiCorp, Washington, Inc. and/or PacifiCorp in connection with the transfer of and service assets from PacifiCorp to PacifiCorp, Washington, Inc. (and the other new companies), the proposed encumbrance of such property, and the proposed issuance of short-term debt by PacifiCorp, Washington, Inc.

DATED: December 1, 2000

Respectfully submitted,

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Of Attorneys for Applicants

VERIFICATION

The undersigned hereby certifies that the information set forth in this application is true and correct to the best of the signer's information and belief under penalty of perjury as set forth in RCW 9A.72.085.

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