

Exhibit No. \_\_\_ (APB-3)  
Docket Nos. UE-050684 and UE-050412  
Witness: Alan P. Buckley

**BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

**WASHINGTON UTILITIES AND  
TRANSPORTATION COMMISSION,**

**Complainant,**

**v.**

**PACIFICORP, d/b/a Pacific Power &  
Light Company, Respondent.**

**In the Matter of the Petition of  
PacifiCorp, d/b/a Pacific Power & Light  
Company for an Order Approving  
Deferral of Costs Related to Declining  
Hydro Generation**

**DOCKET NO. UE-050684**

**DOCKET NO. UE-050412**

**EXHIBIT TO  
TESTIMONY OF**

**ALAN P. BUCKLEY**

**For  
STAFF OF  
WASHINGTON UTILITIES AND  
TRANSPORTATION COMMISSION**

**"PacifiCorp Joint Application"  
in Docket No. UE-001878  
(EXCERPTED)**

**November 3, 2005**

STOEL RIVES LLP

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ORIGINAL

UE-001878

(AT)

RECEIVED  
00 DEC -1 PM 4:37  
STATE OF WASH.  
UTIL. AND TRANSP.  
COMMISSION

December 1, 2000

**HAND-DELIVERED**

Carole J. Washburn, Secretary  
Washington Utilities and Transportation Commission  
1300 S. Evergreen Park Drive SW  
P.O. Box 47250  
Olympia, WA 98504-7250

**Re: Joint Application of PacifiCorp and PacifiCorp, Washington, Inc.**

Dear Ms. Washburn:

Attached for filing are an original and nineteen (19) copies of the Joint Application of PacifiCorp and PacifiCorp, Washington, Inc. for various approvals necessary to implement a restructuring of PacifiCorp ("the Company") into six separate state electric companies, a generation company and a service company.

This filing follows discussions that the Company has initiated in past weeks with its regulators in a number of states concerning important challenges facing the Company, its regulators and its customers. This filing is made in an effort to bring some greater focus to those discussions.

As explained in the enclosed prefiled direct testimony of Messrs. MacRitchie, Wright and Furman, the Company is proposing this restructuring because it has concluded that its existing structure and interjurisdictional cost allocation process is a source of risk and uncertainty that is not in the long-term best interests of its customers or its shareholders.

PacifiCorp is mindful that the proposed restructuring is a major step for the Company and its customers. It expects a lengthy and thorough review by the Commission, and understands that it will not be able to move forward absent a consensus of all six of the state commissions that regulate it. The Company acknowledges that the materials included in the attached filing are not sufficient to provide the Commission with all of the information it will require to assess the impact of the proposed restructuring on the Company's customers in Washington. As indicated in the enclosed prefiled testimony, the Company intends to make at least two supplemental filings as information is developed.

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STOEL RIVES LLP

Carole J. Washburn  
December 1, 2000  
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The successful resolution of interjurisdictional issues will require compromise among the regulatory commissions in the six states in which the Company operates. PacifiCorp made an initial filing at this time with respect to its proposed restructuring because it believes that a consensus will most likely emerge if the Company engages all of these commissions in a review of a number of important issues at approximately the same time.

The Company hopes to continue to engage state commissioners, their staffs and other interested parties in a dialogue concerning the restructuring so that each state can provide input on its ultimate shape. The Company understands that each commission will likely wish to design its own process and timing for moving forward with a review of its Application. To that end, the Company respectfully requests that the Commission schedule a prehearing conference with regard to this Application as soon as practicable.

Thank you for your assistance.

Very truly yours,

**PacifiCorp**

By 

James M. Van Nostrand  
Stoel Rives LLP  
Attorneys for PacifiCorp

cc: Simon ffitich, Office of Public Counsel  
Melinda Davison, ICNU

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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\_\_\_\_\_

PACIFICORP

JOINT APPLICATION, DIRECT TESTIMONY AND EXHIBITS

December 2000

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1 BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

2  
3 In the Matter of the Joint Application of  
4 PACIFICORP and PACIFICORP,  
5 WASHINGTON, INC. for an Order  
6 Approving (1) the Transfer of Distribution  
7 Property from PacifiCorp to an Affiliate,  
8 PacifiCorp, Washington, Inc.,  
9 (2) the Transfer by PacifiCorp of Certain  
10 Utility Property to an Affiliate, the Service  
11 Company, and (3) the Proposed Accounting  
12 Treatment for Regulatory Assets and  
13 Liabilities, and an Order Granting an  
14 Exemption under RCW 80.08.047 for the  
15 Issuance or Assumption of Securities and  
16 Encumbrance of Assets by PacifiCorp,  
17 Washington, Inc. and/or PacifiCorp

Docket No. UE-00 \_\_\_\_\_

JOINT APPLICATION

STATE OF WASHINGTON  
UTILITIES AND TRANSPORTATION  
COMMISSION  
RECEIVED  
REGISTRATION DEPARTMENT  
00 DEC - 1 PM 4:37

11 PacifiCorp (or "the Company") and PacifiCorp, Washington, Inc. (together, the  
12 "Applicants") file this application pursuant to the provisions of Chapter 80.12 RCW,  
13 RCW 80.08.040, RCW 80.08.130 and RCW 80.08.047, and WAC 480-143-120.  
14 RCW 80.12.020 requires Washington Utilities and Transportation Commission  
15 ("Commission") approval of any transaction involving the disposition of public utility property  
16 necessary or useful in the performance of a public service company's duties to the public.<sup>1</sup>  
17 RCW 80.08.040 and RCW 80.08.130 require public service companies to make a filing with  
18 the Commission before issuing stocks, bonds, notes, or other evidences of indebtedness, or  
19 assuming any obligation in respect of securities. RCW 80.08.047 provides that the  
20 Commission may exempt any security for which a filing is required under  
21 Chapter 80.08 RCW, or any electrical company subject to the provisions of the chapter, if the  
22  
23  
24

25 \_\_\_\_\_  
26 <sup>1</sup> 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.

1 application of the chapter to such security or such utility “is not required by the public  
2 interest.”

3 PacifiCorp proposes to implement a corporate restructuring. Under the proposed  
4 restructuring, PacifiCorp will retain ownership and operation of its generating assets and  
5 change its name to “PacifiCorp Generation Company.” PacifiCorp will also retain ownership  
6 of its transmission assets, although control over and operation of these transmission assets are  
7 proposed to be transferred to a regional transmission organization, RTO West.<sup>2</sup> PacifiCorp’s  
8 remaining non-transmission utility assets will be allocated among six new state electric  
9 companies – including PacifiCorp, Washington, Inc. – and a service company (the “service  
10 company”). Upon completion of the restructuring, the service company will be renamed  
11 “PacifiCorp.” Above all of these companies in the corporate structure will be a newly formed,  
12 non-operating U.S. holding company, PacifiCorp Holdings, Inc.<sup>3</sup> The corporate structure of  
13 PacifiCorp and its related entities following the restructuring is shown in Application  
14 Exhibit 1.  
15  
16  
17  
18  
19

---

20 <sup>2</sup> PacifiCorp is not, by this Application, seeking Commission approval for the transfer of control and  
21 operation of PacifiCorp’s transmission assets to RTO West. Details of those arrangements are still being  
22 developed. During the second quarter of 2001, PacifiCorp expects to amend the Application in this docket to seek  
23 the necessary regulatory approvals for that transfer.

24 <sup>3</sup> As part of the corporate restructuring and prior to the transfer to PacifiCorp, Washington, Inc., it is  
25 proposed that (1) NA General Partnership will transfer all of the common stock of PacifiCorp to PacifiCorp  
26 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.

1 The new Washington electric company, for purposes of this Application referred to as  
2 "PacifiCorp, Washington, Inc." ("PacifiCorp Washington"), would continue to serve  
3 PacifiCorp's electricity customers in Washington, and would be a public service company  
4 subject to the jurisdiction of the Commission. PacifiCorp Washington would acquire the  
5 necessary power supply to serve its utility customers pursuant to a power sales contract  
6 between PacifiCorp Washington and PacifiCorp Generation Company ("Power Supply  
7 Contract"). The Power Supply Contract will provide for PacifiCorp Washington's current  
8 requirements; future requirements will be met through additional agreements with PacifiCorp  
9 Generation Company or third-party suppliers.  
10  
11

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

- 14 • Authorization to transfer PacifiCorp's distribution property within the state of  
15 Washington to PacifiCorp Washington,
- 16 • Authorization to transfer of certain of PacifiCorp's utility property to the service  
17 company, and
- 18 • Approval of proposed accounting treatment for the regulatory assets and liabilities  
19 (such as deferred taxes and deferred pension costs) associated with (1) the assets  
20 transferred by PacifiCorp to PacifiCorp Washington, and (2) an allocable share of  
21 the generation and transmission assets supporting service to PacifiCorp Washington  
22 under the Power Supply Contract.  
23  
24  
25  
26

1 In addition, Applicants request an exemption under RCW 80.08.047 for the issuance of stock  
2 and issuance or assumption of indebtedness by PacifiCorp Washington and/or PacifiCorp in  
3 connection with the transfer of distribution and service assets from PacifiCorp to PacifiCorp  
4 Washington (and other companies), the proposed encumbrance of such property, and the  
5 proposed issuance of short-term debt by PacifiCorp Washington.  
6

7 **I. APPLICATION**

8 **A. NAME AND ADDRESS OF APPLICANTS**

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

10 <b>PacifiCorp</b>	<b>PacifiCorp Washington</b>
Suite 600	Suite 600
825 NE Multnomah	825 NE Multnomah
Portland, OR 97232	Portland, OR 97232

11  
12  
13 **B. CORPORATE INFORMATION**

14 PacifiCorp, an Oregon corporation, was incorporated on August 11, 1987. PacifiCorp  
15 is authorized to transact business in the states of Oregon, California, Idaho, Utah, Washington,  
16 and Wyoming. PacifiCorp Washington will be organized as an Oregon corporation for the  
17 purposes of acquiring and operating PacifiCorp's distribution assets in the state of Washington.  
18 PacifiCorp Washington and the other state electric companies have not been organized,  
19 pending applicable regulatory approval.  
20

21 **C. CORRESPONDENCE AND PLEADINGS**

22 All correspondence or communications regarding this application should be addressed  
23 to:  
24  
25  
26



1           **For Applicants:**

2           Andrea Kelly  
3           Director, Regulation  
4           PacifiCorp  
5           Suite 800  
6           825 NE Multnomah  
7           Portland, OR 97232  
8           Tel (503) 813-6043  
9           Fax (503) 813-6060

**With a Copy to:**

                  James M. Van Nostrand  
                  Stoel Rives LLP  
                  Suite 3600  
                  600 University Street  
                  Seattle, WA 98101-3197  
                  Tel (206) 386-7665  
                  Fax (206) 386-7500

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

10       **D. PRINCIPAL OFFICERS**

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

12           **PacifiCorp**

13           Alan V. Richardson  
14           President and Chief Executive  
15           Officer  
16           Suite 2000  
17           825 NE Multnomah  
18           Portland, OR 97232

19           William D. Landels  
20           Executive Vice President  
21           Suite 2200  
22           One Utah Center  
23           Salt Lake City, Utah

24           Karen K. Clark  
25           Senior Vice President and  
26           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]

1 Terry Hudgens  
2 Senior Vice President  
3 Suite 2000  
4 825 NE Multnomah  
5 Portland, OR 97232

6 **E. DESCRIPTION OF BUSINESS**

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

14 **F. DESCRIPTION OF ASSETS TO BE TRANSFERRED BY PACIFICORP**

15 *1. Assets to be Transferred to PacifiCorp Washington*

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

- 19
- 20 • Distribution poles and wires, land, right-of-ways
  - 21 • Distribution assets assigned to Washington by virtue of situs in Washington
  - 22 • Movable distribution assets (trucks, equipment, etc.) used to serve Washington customers
  - 23 • Meters used to serve Washington customers

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

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

4  
5 Following the corporate restructuring and consistent with its obligations as a public  
6 utility, PacifiCorp Washington will be responsible for providing the following functions:

7 Maintenance of transmission and distribution facilities in Washington; customer service; and  
8 management, regulatory and public affairs functions necessary to support operation of the  
9 electric company within Washington and associated filings and regulatory approvals from the  
10 Commission. PacifiCorp Washington may contract with the service company for some of the  
11 resources to perform these functions.  
12

13 **2. *Assets to be Transferred to Other State Electric Companies***

14 The assets which PacifiCorp proposes to transfer to other new state electric companies,  
15 for purposes of this Application referred to as "PacifiCorp, Oregon, Inc.," "PacifiCorp, Utah,  
16 Inc.," "PacifiCorp, Idaho, Inc.," "PacifiCorp, Wyoming, Inc.," and "PacifiCorp, California,  
17 Inc.," respectively, generally are those distribution system assets located in those respective  
18 states used to serve the Company's existing electric customers in those states. The description  
19 of such assets are the same as set forth above with respect to PacifiCorp Washington.  
20

21 **3. *Assets to be Transferred to the Service Company***

22 The assets which PacifiCorp proposes to transfer to the service company generally are  
23 those assets used to perform the following centralized functions: distribution asset  
24 management; transmission asset management and regulation; transmission and distribution  
25 construction; call center operations; billing/customer service activities; outage and other  
26

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

8  
9 The assets to be transferred to the service company include the following:

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

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

#### 18 4. *Transfer Terms*<sup>4</sup>

19 PacifiCorp proposes to transfer the Washington distribution assets to PacifiCorp  
20 Washington in exchange for 1,000 shares of common stock of PacifiCorp Washington and,  
21 except as described below, a note secured by these assets. The Company's preliminary  
22 analysis indicates that the principal amount of the note will be approximately \$110 million,  
23

24 \_\_\_\_\_  
25 <sup>4</sup> It should be noted that the dollar figures appearing in this section are based upon the Company's  
26 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.

1 which is intended to achieve a 50% equity ratio for PacifiCorp Washington. The note would  
2 be payable in full in less than one year after issuance and all payments of principal and interest  
3 would be used to service existing indebtedness of PacifiCorp. PacifiCorp Washington will  
4 record the distribution assets on its books at PacifiCorp's net book value. PacifiCorp proposes  
5 to transfer assets to the other new state electric companies on similar terms. Accordingly,  
6 PacifiCorp would receive common stock and, except as noted below, secured promissory notes  
7 from these companies as follows: PacifiCorp, Oregon, Inc.: \$500 million; PacifiCorp, Utah,  
8 Inc.: \$600 million; PacifiCorp, Idaho, Inc.: \$75 million; PacifiCorp, Wyoming, Inc.: \$150  
9 million; and PacifiCorp, California, Inc.: \$75 million. As with PacifiCorp Washington, these  
10 estimated amounts have also been set to achieve a 50% equity ratio for each of the state  
11 electric companies.  
12

13  
14       Instead of receiving notes from the new state electric companies, PacifiCorp may incur  
15 long-term debt from external lenders, secured by the distribution assets, that would be assumed  
16 by these state electric companies in connection with the transfers. PacifiCorp would receive  
17 the proceeds of any such external debt but would have no further obligation with respect to the  
18 debt after it has been assumed by the state electric companies. It is possible, however, that the  
19 external debt arrangements would not be completed prior to the transfers. In that  
20 circumstance, PacifiCorp would receive short-term notes from the state electric companies as  
21 described above, and the state electric companies subsequently would incur the external debt,  
22 the proceeds of which would be used to retire the notes payable to PacifiCorp. As a result,  
23 PacifiCorp may incur long-term external debt in the aggregate principal amount of \$1,510  
24  
25  
26

1 million, of which \$110 million would be assumed by PacifiCorp Washington and the balance  
2 by the other state electric companies, and PacifiCorp Washington may incur \$110 million of  
3 short-term internal debt and \$110 million of long-term external debt to refinance any internal  
4 debt incurred.  
5

6 PacifiCorp proposes to transfer the assets described in paragraph 3 above to the service  
7 company in exchange for all of the capital stock of the service company and a note, secured by  
8 these assets, in the principal amount of \$160 million. The note would be payable in full in less  
9 than one year after issuance and all payments of principal and interest would be used to service  
10 existing indebtedness of PacifiCorp. As an alternative, PacifiCorp may incur \$160 million of  
11 long-term external debt that would be assumed by the service company.  
12

13 **G. DESCRIPTION OF SECURITIES TO BE ISSUED OR ASSUMED BY**  
14 **PACIFICORP WASHINGTON AND PACIFICORP<sup>5</sup>**

15 As described above, PacifiCorp Washington will issue 1,000 shares of common stock,  
16 representing all of its outstanding capital stock, to PacifiCorp and one or more notes, secured  
17 by the distribution assets, to PacifiCorp, or external lenders, as described below. The purpose  
18 for which such securities will be issued is the acquisition of utility property or the refunding of  
19 obligations issued for such purposes.  
20

21 PacifiCorp may issue up to an aggregate of approximately \$1.7 billion of long-term  
22 external debt that would be assumed in the transfers by the state electric companies and the  
23 service company, including \$110 million to be assumed by PacifiCorp Washington. If the  
24

25 <sup>5</sup> It should be noted that the dollar figures appearing in this section are based upon the Company's  
26 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

1 external debt is not available at the time of the transfers, the state electric companies and the  
2 service company would issue short-term notes as described above. Once the external debt is  
3 arranged, the proceeds would be used to refinance the notes payable to PacifiCorp.

4 Accordingly, PacifiCorp Washington may assume or incur up to \$110 million aggregate  
5 principal amount of debt secured by the distribution assets it obtains from PacifiCorp, and  
6 PacifiCorp may incur up to an aggregate of approximately \$1.7 billion in external debt,  
7 secured by the distribution and service assets, that would be assumed by the state electric  
8 companies and the service company in connection with the transfers.  
9

10 In addition, PacifiCorp Washington proposes to enter into short-term debt arrangements  
11 to provide an initial source of working capital. This debt will take the form of unsecured  
12 short-term promissory notes, borrowings from commercial banks, commercial paper, or  
13 borrowings from PacifiCorp Holdings, Inc. or any of its affiliates. The aggregate principal  
14 amount of short-term debt under such arrangements will not exceed \$50 million.  
15

16 Applicants respectfully request that the Commission grant an exemption under  
17 RCW 80.08.047 for the issuance of stock and issuance or assumption of indebtedness by  
18 PacifiCorp Washington and/or PacifiCorp in connection with the transfer of distribution and  
19 service assets from PacifiCorp to PacifiCorp Washington (and other new companies), the  
20 proposed encumbrance of such property, and the proposed issuance of short-term debt by  
21 PacifiCorp Washington to provide an initial source of working capital. RCW 80.08.047  
22 provides that:  
23  
24

25  
26 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.

1 The Commission may from time to time by order or rule, and subject to such  
2 terms and conditions as may be prescribed in the order or rule, exempt any  
3 security . . . for which a filing is required under this chapter or any electrical or  
4 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.

5 The Commission is reviewing the “public interest” of the proposed corporate restructuring  
6 under Chapter 80.12 RCW and WAC 480-143-170. Given that the proposed issuances,  
7 assumptions and encumbrances of property referred to above are to effectuate the  
8 restructuring, further review of these individual elements of the transaction is unnecessary.  
9 Accordingly, an exemption would be appropriate under RCW 80.08.047.<sup>6</sup>

#### 11 H. PROPOSED ACCOUNTING TREATMENT

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

#### 21 I. CONTINUING OPERATIONS OF PACIFICORP GENERATION COMPANY

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

24 \_\_\_\_\_  
25 <sup>6</sup> In its Fifth Supplemental Order Accepting Stipulations, Approving Transaction, and Granting Securities  
26 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



1 and maintenance, and plant dispatch and scheduling. In addition, PacifiCorp Generation  
2 Company will provide wholesale trading, customer service and risk management. Related to  
3 these functions, PacifiCorp Generation Company will own the generation and mining assets,  
4 including: mines, plants, (and related buildings, land and water rights), step-up transformers,  
5 generation systems (including trading, risk management and plant), generation dispatch and  
6 scheduling, and power sales contracts. PacifiCorp Generation Company may also retain  
7 control of some low voltage transmission assets, depending on how RTO West is ultimately  
8 structured.  
9

10 **J. REASONS FOR THE CORPORATE RESTRUCTURING**

11 PacifiCorp's corporate structure and the manner in which it establishes retail prices  
12 have been fundamentally unchanged for more than 35 years. A number of developments have  
13 occurred and are continuing to occur in the electric utility industry that have caused the  
14 Company to conclude that a fundamental change in the Company's corporate structure is both  
15 imperative and overdue. These developments include: (1) direct access initiatives in Oregon  
16 and elsewhere; (2) the need to provide independent control of the Company's transmission  
17 assets, consistent with expectations of FERC; (3) fundamental changes in wholesale power  
18 markets and the risk of generation supply shortages; (4) industry consolidation; (5) the  
19 divergent policy goals of the state commissions that regulate the Company; (6) the limitations  
20 of traditional cost-of-service regulation; and (7) the breakdown of the Company's  
21 interjurisdictional cost allocation process. These developments are discussed briefly below.  
22  
23  
24  
25

26 

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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           **1.     *Direct Access Initiatives***

2           The different states served by PacifiCorp have had different attitudes and responses to  
3 the notion of mandating or permitting retail competition in the sale of electricity. The  
4 proposed corporate restructuring would enable each state to pursue (or not pursue) direct  
5 access in its own way and at its own pace without adverse impact to customers in other states  
6 or losses to the Company's shareholders. The direct access measure in Oregon, S.B. 1149,  
7 was followed by the Oregon Public Utility Commission's development and adoption of  
8 implementing administrative rules ("Oregon Rules"). A critical element of the Oregon Rules is  
9 a requirement that both Oregon "electric companies" (Portland General Electric Company and  
10 PacifiCorp) file proposed "resource plans" with the Oregon Commission. The resource plan  
11 process will require PacifiCorp to identify: (1) a portion of its total generating resources that it  
12 proposes to allocate to Oregon; (2) specify what portion of this Oregon share should be  
13 dedicated to serve the current and reasonably-expected loads of residential and small non-  
14 residential customers; and (3) specify what portion should be "released to the competitive  
15 market" by either being deregulated or sold. The Oregon resource planning process presents  
16 significant new issues for PacifiCorp and the regulators in all of its jurisdictions.  
17  
18  
19

20           Previously, fixed shares of PacifiCorp's specific generating resources were not  
21 allocated among its various state jurisdictions. The perspective has been that PacifiCorp has a  
22 single generating system that is dispatched for the benefit of all of its customers. Generally  
23 speaking, the fixed costs of that single system have been allocated based upon each state's  
24 relative contribution to system peak demand in any given year and the variable costs have been  
25 allocated based upon each state's relative energy consumption during any given year.  
26

1 PacifiCorp has concluded that the expectation in the Oregon Rules that a portion of its  
2 generating resources be "released to the competitive market" cannot be achieved in the context  
3 of the current system of interjurisdictional cost allocations because, among other reasons, the  
4 current system assumes dynamic changes in cost assignments whereas a permanent "release" to  
5 the market assumes a fixed interjurisdictional dedication of resources.  
6

7 The Oregon Rules also contemplate that PacifiCorp's cost-of-service rates to residential  
8 customers, and those small non-residential customers who do not elect direct access, will be  
9 based upon the cost of those generating resources permanently dedicated to serving those  
10 customers as reflected in the resource plan. This too is contrary to past practice, which based  
11 cost-of-service rates upon an allocation of the costs of operating PacifiCorp's entire system.  
12

13 PacifiCorp does not believe that a meaningful cost-of-service rate can be derived from a  
14 relatively small subset of its generating resources because that subset does not and will not  
15 operate independent from the whole. Additionally, the apparent average cost of operating the  
16 entire system, absent the portion of the system allocated to Oregon, will be different (and  
17 likely higher) than the actual average cost of operating the entire system. That is to say, an  
18 inappropriate balkanization of the Company's generating system could result in an increase in  
19 the cost of service in some or all of PacifiCorp's retail jurisdictions.  
20

21 Finally, the Oregon Rules contemplate that to the extent Oregon cost-of-service  
22 customers "outgrow" the resources allocated to them in the resource plan, additional resources  
23 acquired to serve them will not be included in the Company's Oregon rate base and that such  
24 incremental requirements will be served at a market price. This is contrary to the past practice  
25  
26

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

4  
5 Moreover, the direct access initiatives are not limited to Oregon. A legislative task  
6 force is studying the matter in Utah. The Wyoming Commission has encouraged the Company  
7 and its industrial customers to determine whether a consensus proposal can be developed.  
8 Given the states' different attitudes and responses to the notion of mandating or permitting  
9 retail competition in the sale of electricity, the Company needs to be structured in a manner  
10 that will enable each state to pursue (or not to pursue) direct access in its own way and at its  
11 own pace. The proposed restructuring is intended to accomplish this result.

## 13 2. *Independent Control of Transmission Assets*

14 Developments with respect to PacifiCorp's transmission system are driven by FERC  
15 Order No. 2000, which requires all public utilities under its jurisdiction (including PacifiCorp)  
16 to file, by October 15, 2000, either: (a) a comprehensive filing to create a regional  
17 transmission organization ("RTO") or (b) a detailed explanation of why such a filing could not  
18 be made. FERC took this initiative because it recognizes that the demands placed on the  
19 transmission grid have changed with the changing structure of the electrical industry. FERC  
20 determined that independent RTOs offering transmission products and services on a fair and  
21 non-discriminatory basis are necessary for competitive power markets to succeed. FERC  
22 believes that RTO formation should result in better management of congestion across  
23 constrained transmission paths, resolve conflicts in scheduling between utilities, promote more  
24 competitive power markets and more efficiently manage differences in transmission  
25  
26

1 maintenance practices and schedules. Moreover, FERC concluded that a single operator of a  
2 regional grid would eliminate reliability constraints caused by separate utility decision making,  
3 assure better coordination during system emergencies and provide improved coordination of  
4 generation and transmission system outages.  
5

6 In response to this FERC initiative, PacifiCorp took a leadership role in ensuring that  
7 the benefits of an RTO are maximized. It joined with seven other investor-owned utilities and  
8 the Bonneville Power Administration (commonly referred to as "the filing utilities") to form a  
9 non-profit corporation known as "RTO West" to fund and develop an RTO proposal. RTO  
10 West will encompass transmission facilities currently in the Northwest Power Pool and those  
11 owned by the Nevada Power Company. On October 23, 2000, the filing utilities filed their  
12 proposal to form RTO West with FERC. A copy of the filing is included as Application  
13 Exhibit 4. During the second quarter of 2001, PacifiCorp expects to amend this Application to  
14 seek approval from the Commission for the transfer of control of these transmission assets to  
15 RTO West.  
16  
17

### 18 3. *Wholesale Power Markets and New Generation*

19 The extreme volatility of prices in Western wholesale markets during recent months has  
20 implications for PacifiCorp and its retail customers. For the past several decades, PacifiCorp  
21 participated in wholesale markets as a means of disposing of short-term surpluses of generation  
22 and dispatching its system in a manner that lowered its costs to its retail customers. Until the  
23 mid- to late-1990s, the Company's wholesale power marketing activities centered around long-  
24 term contracts that generated attractive margins with relatively little risk. The margins from  
25 these contracts were credited against retail prices under the "revenue credit" method and  
26

1 contributed substantially to moderating or eliminating retail price increases. Because the  
2 wholesale power market has now grown far more competitive and because of the uncertainty  
3 surrounding future prices, the market has shifted to relatively short-term transactions with  
4 razor-thin margins. Without incurring risks on behalf of the Company's retail customers that  
5 may be imprudent, the Company is no longer able to generate total margins from new  
6 wholesale sales that are sufficient to materially reduce retail prices.  
7

8 As the "rules of the game" are clarified, the market will operate in a more predictable  
9 and satisfactory fashion. The proposed restructuring should assist in clarifying the rules, roles  
10 and responsibilities for the construction of new generation in each of the states. The proposed  
11 Power Supply Contract provides a means of resolving the increasing dilemma posed by the  
12 "revenue credit" method of dealing with the Company's wholesale sales. The Contract is  
13 intended to be structured in a fashion that affords PacifiCorp's retail customers the remaining  
14 economic benefits of existing generation and long term sales contracts, while not relying on  
15 new wholesale contracts to moderate retail prices. The terms of the Contract also establish that  
16 the Company's state electric companies will have the option of buying future power  
17 requirements from PacifiCorp Generation Company or third-party suppliers.  
18  
19

#### 20 4. *Industry Consolidation and Related Distribution Issues*

21 As described in the accompanying prefiled testimony of Messrs. MacRitchie, Wright  
22 and Furman, changes are also occurring in the industry with respect to the distribution  
23 function. There is a world-wide trend toward the consolidation of the distribution function. It  
24 appears that in order to optimize efficiency and customer service in the distribution, metering  
25 and billing functions, a customer base much larger than PacifiCorp's is required. Each year,  
26

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

3 PacifiCorp does not necessarily view this as a positive development. On one hand, the  
4 Company understands that customers and shareholders will continue to demand greater and  
5 greater efficiency and levels of customer service and that they are entitled to do so. On the  
6 other hand, the Company appreciates that customers and regulators may have concerns about  
7 consolidation to the extent that it results in a sense of isolation from the distribution services  
8 provider. In the Company's view, a means needs to be found to benefit from economies of  
9 scale, while retaining a close connection with local customers, communities and regulators.  
10 The proposed restructuring is intended to meet these competing objectives.  
11  
12

### 13 **5. State Regulatory Policies**

14 PacifiCorp's regulators do not share similar views in respect to these industry  
15 developments. As indicated previously, the regulators and legislators in the states in which  
16 PacifiCorp operates have highly divergent views as to the appropriate nature and timing of  
17 direct access. These regulators also have differing views concerning the desirability of load  
18 growth and how any load growth that does occur should be met. Some of the Company's  
19 regulators are more enthusiastic about renewable resources and demand side management than  
20 others. The Oregon Public Utility Commission is supportive of demand-side and renewable  
21 resources, but now expects them to be funded out of "public purpose charges" and no longer  
22 reflected in the Company's electricity rates. Some states favor the Company's construction of  
23 new coal plants. Others favor the Company meeting all future requirements from the market.  
24  
25  
26 Some regulators support special contracts that will further local economic development, others

1 are skeptical about such arrangements. Most of the commissions regulating the Company  
2 expect the continuation of a least-cost planning process, whereas S.B. 1149 appears to render  
3 such a process moot in respect to serving the Company's Oregon cost-of-service load.  
4

5 The Company, under its current structure, is not well-positioned to respond to this  
6 diversity of approaches. The Company's policies tend to represent an amalgamation of  
7 responses to regulation that do not appear to cause any of the Company's regulators to  
8 conclude that the Company is being particularly responsive to their concerns. The proposed  
9 restructuring will accommodate this diversity by allowing each state to pursue -- and the  
10 Company to implement -- regulatory policies it deems appropriate without affecting customers  
11 in other states or causing the Company's shareholders to be unfairly treated.  
12

13 **6. Other Regulatory Approaches**

14 As discussed in the accompanying prefiled testimony of Messrs. MacRitchie, Wright  
15 and Furman, traditional cost-of-service regulation can be viewed as cumbersome and providing  
16 scant incentives for utilities to innovate or become more efficient. Greater emphasis could be  
17 placed on benchmarking companies and rewarding (or at least not penalizing) companies who  
18 perform better than their peers. Commissions could develop new regulatory techniques that  
19 focus on how the average costs of performing any particular function compare to the average  
20 costs incurred by the Company's competitors. The result would be a more streamlined process  
21 directed at examining whether consumers are being well served at a reasonable price. The  
22 proposed restructuring will enable each commission to consider innovative alternatives to  
23 traditional cost-of-service regulation.  
24  
25  
26



1           7.       ***The Interjurisdictional Cost Allocation Process***

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

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17       **K.       BENEFITS FROM THE RESTRUCTURING**

18           The proposed restructuring will produce the following benefits:

- 19
- 20 • Each of the jurisdictions within which the Company operates will be able to pursue  
21 regulatory policies that it deems appropriate without affecting customers in other states or  
22 causing the Company's shareholders to be unfairly treated.
  - 23 • The restructuring will facilitate a comprehensive resolution of the issues discussed above,  
24 including direct access, interjurisdictional cost allocations and RTO formation. These  
25 issues are inextricably linked and require a comprehensive resolution. For example, many  
26

1 people believe that in those states that favor some form of direct access, markets will not be  
2 fully competitive in the absence of an RTO. In turn, RTO formation may result in a  
3 reallocation of transmission costs which would be difficult to accomplish unless the  
4 Company's various jurisdictions understand how generation is going to be allocated. Any  
5 given state is hard-pressed to implement direct access in a manner that does not have  
6 adverse consequences on other jurisdictions or shareholders unless there is a permanent  
7 allocation of the economic benefits of the Company's existing generation among the states.  
8

- 9 • The proposed restructuring will substantially improve how the Company is regulated.  
10 Each state commission will, in effect, have a single electric company to regulate and each  
11 will be free to consider innovative alternatives to traditional cost-of-service regulation. It  
12 can be expected that the most successful of those innovations will be adopted by other  
13 states.  
14
- 15 • Creation of the service company would be a vehicle for each of the commissions to  
16 consider performance-based regulation of the transfer prices between the service company  
17 and the state electric companies that will benchmark the quality and cost of services being  
18 provided with less emphasis on traditional means of regulating affiliated interests.  
19
- 20 • Creation of the service company could also afford all the Company's customers the benefits  
21 of economies of scale by contracting for services (at cost) with non-affiliates. At the same  
22 time, each commission would retain local control over the policies of the state electric  
23 company that it regulates.  
24

25  
26

- 1 • The proposed Power Supply Contract provides a means of resolving the increasing  
2 dilemma posed by the "revenue credit" method of dealing with the Company's wholesale  
3 sales. The Contract is intended to be structured in a fashion that affords PacifiCorp's retail  
4 customers the remaining economic benefits of existing generation and long term sales  
5 contracts, while not relying on new wholesale contracts to moderate retail prices.  
6
- 7 • The proposed restructuring would eliminate (or at least substantially reduce) the  
8 controversy and disfunctionality associated with existing interjurisdictional allocation  
9 mechanisms.  
10
- 11 • The proposed restructuring and follow-on legislative and regulatory actions should clarify  
12 the rules, roles and responsibilities for the construction of new generation in each of the  
13 states. In particular, the terms of the proposed Power Supply Contract establish that each  
14 of the state electric companies will have the option of buying future power requirements  
15 from PacifiCorp Generation Company or third-party suppliers. This ought to provide  
16 substantial opportunities and stimulus for a competitive independent power industry. With  
17 the rules, roles and responsibilities so clarified, PacifiCorp and independent power  
18 producers will be free to make investment decisions that are not unduly burdened by  
19 legislative and regulatory uncertainty.  
20

## 21 II. MATERIAL ACCOMPANYING APPLICATION

### 22 A. PREFILED TESTIMONY ACCOMPANYING APPLICATION

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

- 24 (1) A panel comprising Andrew N. MacRitchie, Senior Vice President, PacifiCorp,  
25 Matthew R. Wright, Vice President, PacifiCorp, and Donald N. Furman, Vice  
26

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

- 3 (2) C. Alex Miller, Vice President, PacifiCorp, describes how the Company  
4 proposes to accomplish this reorganization and the nature and timing of  
5 regulatory approvals that are required in respect to it. Mr. Miller's testimony  
6 also sets forth the principles for establishing the terms of the Power Supply  
7 Contract between PacifiCorp Generation Company and PacifiCorp Washington.  
8

9 As soon as practicable and following workshops with affected parties, Applicants will file  
10 additional testimony that provides greater detail with respect to the terms of the Power Supply  
11 Contract and quantifies the economic impact of the proposed restructuring. Applicants are  
12 unable to include this testimony with this Application, as decisions made in the "resource plan"  
13 for purposes of implementing Oregon's industry restructuring legislation, SB 1149, affect a  
14 number of the economic analyses related to the proposed restructuring and state-by-state  
15 resource dedication decisions. The resource plan, which was filed with the Oregon Public  
16 Utility Commission on December 1, was developed in a public process involving  
17 representatives of the public and staff members from all of the state commissions except  
18 California. A copy of the resource plan is contained in Exhibit 5 to this Application. In  
19 addition, Applicants were not inclined to propose specific terms of a Power Supply Contract  
20 without an opportunity for further discussions with commission staff members and customer  
21 representatives with respect to it.  
22  
23  
24

25 **B. EXHIBITS ACCOMPANYING APPLICATION**

26 Copies of the following documents accompany this application:

1 **Exhibit 1** Corporate structure of PacifiCorp and related entities following  
2 restructuring;

3  
4 **Exhibit 2** Form of Contribution and Assumption Agreement dated as of  
5 \_\_\_\_\_, 2001 between PacifiCorp and PacifiCorp  
6 Washington for the transfer by PacifiCorp of the Washington  
7 distribution assets to PacifiCorp Washington;

8 **Exhibit 3** Form of Contribution and Assumption Agreement dated as of  
9 \_\_\_\_\_, 2001 between PacifiCorp and the service  
10 company for the transfer by PacifiCorp of the service assets to  
11 the service company;

12  
13 **Exhibit 4** Filing dated October 23, 2000 with the Federal Energy  
14 Regulatory Commission for PacifiCorp to become a member of  
15 RTO West, a regional transmission organization; and

16  
17 **Exhibit 5** Oregon Resource Plan

18 **III. REQUESTED APPROVALS**

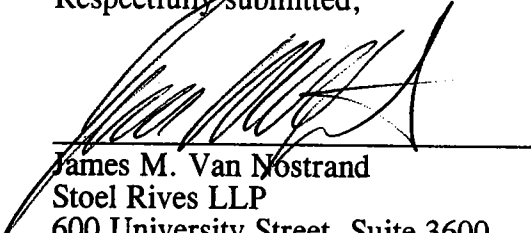
19 Applicants seek a Commission order which:

- 20 (a) Authorizes the transfer of distribution property within the state of Washington to  
21 PacifiCorp, Washington, Inc.,  
22  
23 (b) Authorizes the transfer of certain of the Company's utility property to the  
24 service company,  
25

- 1 (c) Approves the proposed accounting treatment for the regulatory assets and  
2 liabilities associated with (1) the assets transferred by PacifiCorp to PacifiCorp,  
3 Washington, Inc., and (2) an allocable share of the generation and transmission  
4 assets supporting service to PacifiCorp, Washington, Inc. under the Power  
5 Supply Contract, and  
6  
7 (d) Grants an exemption under RCW 80.08.047 for the issuance of stock and  
8 indebtedness by PacifiCorp, Washington, Inc. and/or PacifiCorp in connection  
9 with the transfer of and service assets from PacifiCorp to PacifiCorp,  
10 Washington, Inc. (and the other new companies), the proposed encumbrance of  
11 such property, and the proposed issuance of short-term debt by PacifiCorp,  
12 Washington, Inc.  
13  
14

15 DATED: December 1, 2000  
16  
17

18 Respectfully submitted,

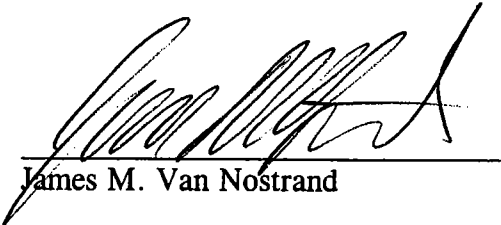
19  
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VERIFICATION

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.



James M. Van Nostrand