



January 31, 2006

Judge Theodora Mace
Judge Ann Rendahl
Commissioner Philip Jones
Commissioner Patrick Oshie
Chairman Mark Sidran
Carole Washburn
Executive Secretary
Washington Utilities & Transportation Commission
1300 S. Evergreen Park Drive, SW
Olympia, WA 98504-7250

Re: Docket No. UE 050684
WUTC Bench Requests 14-25

Please find enclosed one original and eighteen paper copies of PacifiCorp's WUTC Bench Data Request No. 16. On January 27, 2006, PacifiCorp provided this document as a Confidential Attachment but would like to resubmit the document as non-confidential. We apologize for any confusion this may have caused.

If you have any questions, please call Shay LaBray at (503) 813-6176.

Sincerely,

A handwritten signature in black ink that reads "Shay LaBray". The signature is written in a cursive, flowing style.

Shay LaBray
Regulation

Enclosure

cc: Donald T. Trotter/WUTC (3 copies)
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Melinda Davison/ICNU
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WASHINGTON

UE-050684

GENERAL RATE CASE

PACIFICORP

WUTC BENCH DATA REQUEST

ATTACHMENT WUTC BENCH 16

PACIFICORP

**ENERGY MANAGEMENT AND
RISK MANAGEMENT
POLICY**

Revised January 19, 2006

See Appendix F (Document Change Log) for Revision History

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1. INTRODUCTION

PacifiCorp is a Division of the ScottishPower Group (Group), an international energy company serving customers in the United States, Canada and the United Kingdom. PacifiCorp, a regulated utility, provides its customers with electricity generation, transmission and distribution. US activities also extend to coal mining services.

This PacifiCorp Energy Management and Risk Management Policy (PacifiCorp Policy) and the ScottishPower plc Group Energy Management and Risk Management Policy (Group Policy) define the policies and principles relating to the commodity risk management activities of energy management¹ and related commercial activities for PacifiCorp. The Group Policy describes the elements of control required to ensure robust implementation of the Group and PacifiCorp Policies. The PacifiCorp Policy articulates the Group and PacifiCorp's risk appetite, quantifies the risk tolerance acceptable to PacifiCorp and the Group, and describes PacifiCorp's strategic approach to energy management activities. This PacifiCorp Policy is consistent with and supports the Group Policy.

This PacifiCorp Policy and the Group Policy provide the basis for the energy management and risk management (EMRM) procedural documents for operations in each of the energy markets in which PacifiCorp participates. As documented in this PacifiCorp Policy, PacifiCorp maintains a clearly defined energy management strategy subject to annual approval by the PacifiCorp Risk Forum.

The standards set forth in this PacifiCorp Policy and in Group Policy are consistent with the culture that the Group promotes and will preserve. The guiding principle is to conduct business in a manner benefiting customers through the balancing of cost and risk, while delivering shareholder value and protecting PacifiCorp and Group's performance and reputation by prudently managing the risks inherent in our businesses.

2. PACIFICORP RISK STRATEGY, STRUCTURES AND PROCEDURE OVERVIEW

This PacifiCorp Policy governs all energy management and risk management activities for regulated business units and is designed to be consistent with the Group Policy. In the event of a conflict between this PacifiCorp Policy and the Group Policy, the Group Policy shall be the governing document.

Regulatory, legal and other requirements necessitate segregation of duties among the Front Office, Middle Office and Risk Management and the Back Office in PacifiCorp. All EMRM business units shall develop, maintain and observe EMRM procedures applicable to their

¹ The term "energy management" as used herein is defined generically as all purchase and sale activities (physical and financial) of energy commodities (electricity, natural gas, coal, #2 oil, diesel fuel, unleaded gasoline and renewable commodities) used in the context of PacifiCorp's business which includes balancing system requirements, managing risk and proprietary activities. Energy management refers to such transactional activities, and does not in and of itself imply proprietary or speculative activities. EMRM as used herein refers to the combined efforts of PacifiCorp and the Risk Management groups to manage and control the various risks associated with the energy aspects of PacifiCorp's businesses.

businesses, as well as specific local working practices applicable to the functional areas of their operations.

2.1. Strategic Approach to Energy Management and Risk Management

Energy management is an integral part of the Group's business and of the risk management process. The Commercial & Trading business unit (C&T) of PacifiCorp shall manage the energy commodity position and utilize PacifiCorp's assets and liabilities (loads, generating resources and contractual rights and obligations) to (a) manage net power costs to minimize the impact of market price volatility on customers, while (b) maximizing PacifiCorp's potential to achieve its allowed rate of return. C&T shall develop the strategy for managing energy risk and meeting performance objectives; such strategy is subject to review and approval by the PacifiCorp Risk Forum, in accordance with the key responsibilities set out in Section 3 of this document. Such strategy must be consistent with the overall level and allocation of Group risk capital. The relationships between organizations with roles in PacifiCorp's EMRM activities is described and illustrated in Section 3.

The Group's overall commodity risk is managed through a control and limit structure that allocates economic risk capital to the business units engaged in EMRM activities. This risk capital allocation is established and reviewed regularly by the ScottishPower plc Board of Directors (Group Board). It is then allocated to each business unit through a set of market risk and credit risk limits proposed by the business unit and Risk Management for recommendation to and approval by the PacifiCorp Risk Forum (as delegated by the Executive Team (ET)).

The Group promotes a culture of independent yet coordinated trading and risk management functions within and across business and staff units. This PacifiCorp Policy is intended to ensure that the PacifiCorp risk control framework adequately addresses the risks inherent in the EMRM activities conducted by PacifiCorp, and is consistent with the Group Policy.

Compliance with Group Policy and this PacifiCorp Policy is mandatory. No less than annually, all personnel involved in EMRM activities at PacifiCorp shall agree and consent to abide by this PacifiCorp Policy by signing a Certification and Consent Form in substantially the same form as shown in **Appendix A**.

2.2. Risk Management Objectives

PacifiCorp seeks to meet its obligations and profitability goals while adhering to the risk tolerances established by the Board, allocated in turn to the Divisions by the Executive Team (ET). EMRM activities include a system of internal controls designed to assure achievement of effective and efficient EMRM activities, timely, complete and accurate risk measurement and reporting, and compliance with all applicable laws and regulations. The PacifiCorp Policies and operational procedures outlined below are intended to codify certain control practices, to reduce the likelihood of PacifiCorp experiencing losses beyond its approved risk capital.

The PacifiCorp Policy includes the following objectives and key elements:

- the ET, as delegated by the Board, sets and allocates risk capital which defines the boundaries of market risk and credit risk limits. Risk limits will be impacted by market

and credit conditions as well as operational constraints that limit energy management activities;

- EMRM activities apply to a broad array of transactions, including those involving customer demand or load, generation resources, hedging and credit decisions;
- the Board requires a risk control organization that segregates duties among the Front Office, Middle Office, Back Office, Finance and Risk Management functions as a central element of effective EMRM;
- the major sources of risk (including, but not limited to market, credit, administrative, physical operation, demand forecasting, reputation, regulatory, finance, and legal) are interrelated and cannot be managed in isolation;
- quantitative and qualitative risks and performance must be measured appropriately and reported in a timely manner;
- all transactions and commitments will be recorded promptly and accurately to comply with applicable compliance, accounting and reporting requirements;
- valuation and risk measurement methodologies shall be consistent across all business units;
- risk control will be accomplished together with integrity and timeliness of reporting and efficiency of operations;
- all employees have an obligation to mitigate risks prudently and in conjunction with approved strategies and objectives when possible, and all risks should be understood by senior and line management; and,
- PacifiCorp shall comply with all regulatory requirements concerning separation of regulated and unregulated assets and separation of generation and transmission functions.

To be consistent with Group Policy, the PacifiCorp Policy and operational procedures must:

- identify risks inherent in the business unit;
- support measurement, assessment and, where appropriate, mitigation of risks;
- establish specific risk limits and guidelines consistent with the allocation of Group risk capital to PacifiCorp and commercial business units within PacifiCorp;
- allow for prompt and accurate recording of transactions;
- allow for prompt and accurate reporting of risk and results; and,
- mandate continuous, regular evaluation of policies, guidelines, procedures, methodologies, and models.

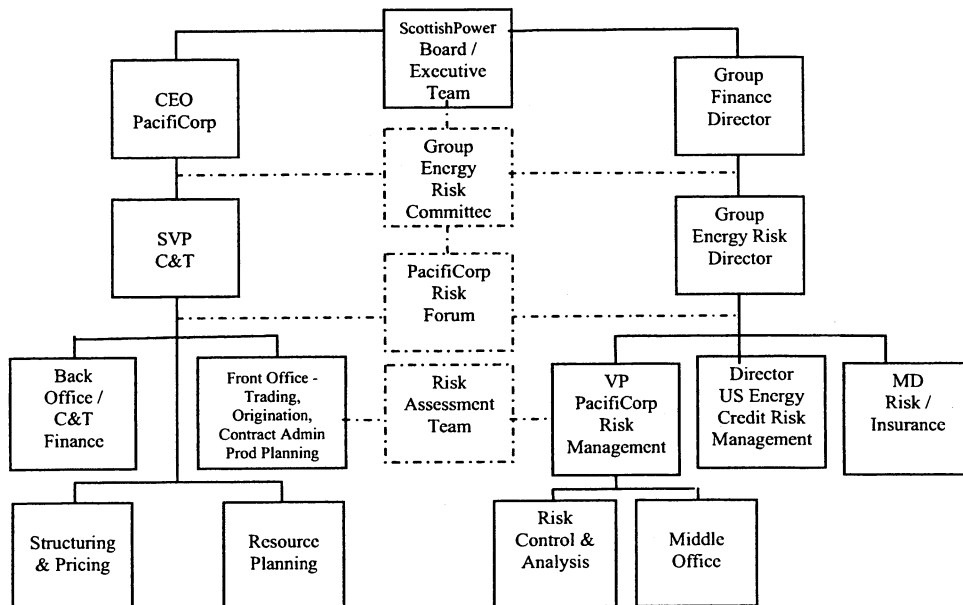
PacifiCorp shall regularly update its commercial strategy and business unit objectives. The current strategy and objectives, including any specific EMRM objectives associated with the business unit strategy, shall be maintained by the business unit and shall be available for review by Risk Management and other authorized parties.

2.3. Controls

To maintain its sound financial position and corporate reputation, PacifiCorp must ensure that proper controls are in place prior to engaging in EMRM activities. PacifiCorp's operational procedures define the control structure for all EMRM activities.

All processes and process controls that are subject to laws and regulations (including the Sarbanes-Oxley Act) shall be maintained in accordance with the requirements of those laws and regulations.

3. ORGANIZATION STRUCTURE, ROLES AND RESPONSIBILITIES



The PacifiCorp Commercial & Trading and Group Risk Management organization is led by the key individuals and groups (shown in the chart) with responsibilities for observing Group and PacifiCorp Policies in the conduct of business.

3.1. Energy Management and Risk Management Organizational Structure

The EMRM organizational structure supports the optimization of PacifiCorp's portfolio of assets and liabilities relative to customers' benefits, Group risk tolerance and commercial strategy and objectives, subject to:

- the PacifiCorp Policy;

- the Group Policy;
- the Group's strategic approach to trading and EMRM; and,
- the level of allocated risk capital.

PacifiCorp Transaction Approval Limits, Authorized Traders/Originators and Authorized Signing Levels are documented in PacifiCorp's C&T Front Office Procedures and Practices (FO Procedures & Practices), and are attached in **Appendix B**.

3.1.1. Group Board

The Group Board is responsible for understanding risks incurred by the Group, and for ensuring that such risks are properly managed. The Group Board:

- determines the level of the Group's risk tolerance;
- has sole authority to approve the Group Policy and risk capital level and allocations to each Division;
- authorizes the risk and reward measures used to set specific risk limits and performance expectations; and,
- enforces or delegates the authority to enforce adherence to the Group Policy and associated Division operational procedures.

3.1.2. Executive Team

The Group Board has delegated authority to the ET to oversee the management of EMRM activities the implementation of appropriate Policies and operational procedures.

The EMRM objectives of the ET are:

- to identify, measure, prioritize and report on EMRM activities robustly and on a consistent basis across the Group;
- to facilitate commercial decisions and strategies consistent with the Group Policy and Division Policies and operational procedures; and,
- to support the Group Risk Management function in identifying and controlling risk within the overall risk tolerance of the Group.

With respect to EMRM activities and the implementation of Policies and operational procedures, the ET is responsible for:

- ensuring that EMRM activity is coordinated across the Group;
- providing consolidated risk and assurance reporting to the Group Board and Audit Committee;
- allocating risk capital to the energy transaction businesses through the establishment and approval of risk limits; and,

- ensuring the independence and effectiveness of the PacifiCorp's Risk Management infrastructure.

3.1.3. Group Energy Risk Committee (GERC)

The GERC assists the ET in discharging its responsibilities. The GERC has the following key responsibilities delegated from the ET:

- developing the Group Policy and ensuring that each Division that engages in energy management activities develops Division Policies and operational procedures, consistent with the Group Policy, to manage energy risk;
- monitoring compliance with the Group Policy and energy management strategies;
- recommending to the ET specific limits and controls; and,
- recommending to the ET changes, additions and deletions to the Group Policy.

The GERC will make recommendations to the ET on EMRM issues. The GERC will also provide advice and guidance to the businesses on interpretation and execution of the Group Policy.

The GERC shall approve credit exposures according to credit limits as defined in the Division Policies and operational procedures. Such credit limits are subject to review as provided in the Group Policy or by the ET.

The GERC shall meet at least once each month. The Terms of Reference for the GERC are included in Appendix C to Group Policy.

3.1.4. PacifiCorp's Board of Directors

The PacifiCorp Board is responsible for establishing PacifiCorp's operating strategies, for ensuring that PacifiCorp's practices are consistent with the provisions of the Group Policy and PacifiCorp Policy. The PacifiCorp Board is responsible for allocating PacifiCorp Board-approved risk capital among the various risks associated with PacifiCorp operations.

3.1.5. PacifiCorp Risk Forum

The PacifiCorp Risk Forum has delegated authority from the GERC and ET to oversee the management of EMRM activities within PacifiCorp. The PacifiCorp Risk Forum's key responsibilities are:

- reviewing and approving proposals for modifications to PacifiCorp Policy and operational procedures and, where appropriate, recommending changes to the GERC and ET;
- considering proposals for transactions that would exceed delegated authorities, and making appropriate recommendations to the GERC and ET;
- approving proposed non-standard transactions (commitments other than approved instruments or limits);

- approving proposals for modifications to any business unit ERM systems and/or procedures;
- approving initial (and revisions to) position, risk and other limits consistent with the allocated risk capital from the GERC and ET; and,
- approving proposed additions to the list of approved trading items including commodities, instruments, markets and other relevant items or limits.

The PacifiCorp Risk Forum is comprised of the following individuals:

- Group Finance Director;
- PacifiCorp Chief Executive Officer;
- Group Energy Risk Director (Chair);
- PacifiCorp Chief Financial Officer;
- PacifiCorp Senior Vice President – Commercial & Trading;
- PacifiCorp Senior Vice President – Regulation & External Affairs;
- PacifiCorp Executive Vice President – Strategy & Major Projects;
- PacifiCorp General Counsel;
- Vice President – PacifiCorp Risk Management; and,
- Group Credit Director.

The PacifiCorp Risk Forum shall meet monthly to consider current transactions, be briefed on current developments, and to consider risk policy. In addition, the Group Energy Risk Director or Vice President – PacifiCorp Energy Risk Management may call for the expedited consideration and approval of a transaction or other issue through the procedure described in **Appendix D**.

3.1.6. Risk Assessment Team

The Risk Assessment Team (RAT) represents a working partnership between C&T and Risk Management and is an integral component of the day-to-day processes within the energy management business. RAT membership is comprised of the management of C&T Front Office and Risk Management.

Risk Management can request from time to time that certain positions and risk profiles be altered. These requests shall be made directly to the Senior Vice President – C&T. Such requests can also be made via the PacifiCorp Risk Forum.

The RAT reviews and approves (subject to authority levels) all significant changes to positions. Such significant changes include but are not restricted to changes to generation outage schedules, modifications to demand forecasting models, or large transactions. As the vast majority of the changes in these categories can be classed as normal activities, a large proportion of the review can be performed by the RAT at the end of the trading day.

PacifiCorp's normal activities shall be those that are consistent with limits and authorities in the FO Procedures & Practices.

3.1.7. PacifiCorp Credit Committee

The PacifiCorp Credit Committee administers the credit policies and procedures as approved by the PacifiCorp Risk Forum and/or ET, as appropriate. The remit of this committee is to ensure that credit risks and issues are managed and reported. This committee will meet monthly at a minimum and will be made up of the following individuals:

- Group Energy Risk Director;
- Group Credit Director;
- Vice President - PacifiCorp Risk Management;
- Director – US Energy Credit Risk Management;
- PacifiCorp Credit Manager; and,
- Treasurer or Assistant Treasurer.

Minutes of the PacifiCorp Credit Committee meetings will be prepared and reviewed at the monthly GERC meetings and PacifiCorp Risk Forum meetings.

Terms of Reference for the PacifiCorp Credit Committee are provided in **Appendix C**.

3.1.8. Energy Management and Risk Management Organization Structure

All employees will respect the principles and separations established respecting functional segregation of duties and independence as described in Sections 4 and 5 of this PacifiCorp Policy.

3.2. Front Office

PacifiCorp's Front Office is comprised of a Trading group, Origination group, Production Planning group and Contract Administration group. The Front Office is responsible for development and implementation of the commercial strategy with respect to EMRM activities and meeting goals and objectives associated with the strategy through EMRM transaction planning, origination and execution, while keeping associated portfolio exposures within risk limits. Management of the Front Office is the responsibility of the Managing Director – Trading and Origination.

3.2.1. Managing Director – Trading & Origination (MD-T&O)

The MD-T&O reports to the Senior Vice President – Commercial & Trading (SVP-C&T) and shall have the responsibilities and authorities to:

- manage and participate in the development and implementation of the business unit's commercial strategy as it relates to EMRM activities;
- manage and participate in the development of trading strategies;

- manage the interaction with third parties and the negotiation and execution of all EMRM transactions for the business unit;
- participate in the formulation of long term planning assumptions;
- review and concur with position valuation;
- approve the establishment of limits at the trader and trade book level that are consistent with overall limits assigned to the Front Office; and,
- ensure that all Front Office activities are in compliance with this PacifiCorp Policy and business unit procedures.

The MD-T&O is responsible for coordination and cooperation with the Middle Office, Risk Management, Back Office and Finance functions to ensure all are working as part of an integrated team.

3.2.1.1. Directors of Trading and Origination

The Director of Trading (DT) and Director of Origination (DO) report to the MD-T&O. Each director is responsible for the conduct of traders, originators and support personnel within their respective group.

The DT and DO have the responsibilities and authorities to:

- provide information to the Middle Office and Risk Management relative to current market conditions;
- coordinate with the Middle Office and Risk Management to properly negotiate, structure and value transactions;
- develop and execute the commercial and trading strategy with respect to EMRM activities;
- ensure that all transactions executed by the group are approved consistent with the approved strategy;
- ensure, in consultation with the Office of the General Counsel (OGC), that all market rules and tariffs are followed in letter and spirit;
- ensure, with the assistance of the OGC, that all transactions with third parties are properly documented to ensure enforceability;
- obtain appropriate approvals prior to execution for products and transactions which fall outside of existing approvals and limits;
- ensure all EMRM personnel in the group execute transactions and conduct their functions in accordance with this PacifiCorp Policy and the business unit procedures;
- maintain counterparty relationships; and,
- develop and manage the business unit portfolio book structure.

The DT and DO are responsible for coordination and cooperation with the Middle Office, Risk Management, Back Office and Finance functions to ensure all are working as part of an integrated team.

3.2.1.2. Director – Production Planning (DPP)

The DPP reports to the MD–T&O. The DPP has Hydroelectric and Thermal resource management responsibilities including:

- development of operating plans and policies to effectively manage water supply, hydroelectric and thermal generating assets;
- coordination of maintenance outages and timing strategies between power plant staff and market trading;
- development of hydroelectric and thermal generation forecasts as inputs to C&T physical and financial modeling and portfolio valuation;
- communication of forecast and scheduled generation output to plant operators and Real Time traders; and,
- fulfillment of PacifiCorp’s commitment to the environment and license compliance.

3.2.1.3. Director – Contract Administration (DCA)

The DCA reports to the MD–T&O. The DCA has the responsibilities for:

- monitoring all wholesale power agreements and tariffs under which trades are made to assure compliance with contract terms by both PacifiCorp and the counterparty;
- providing general contract administration support and administering all long-term sales, purchase, and trade enabling agreements;
- coordinating PacifiCorp activity surrounding its obligations under the Public Utility Regulatory Policy Act in the interconnections and purchase of power from qualifying facilities;
- maintaining the C&T Document Management System that stores all contracts, related correspondence and supporting documentation as well as reports generated by C&T;
- providing coordination within C&T for responses to data requests from regulatory and other entities having jurisdiction over PacifiCorp;
- coordinating the promulgation of new or amended contract obligations to assure accurate representation in the various C&T systems;
- communicating relevant data and information to the Middle Office – Contract Optimization Group to ensure timely, accurate and complete valuation and operation of the contractual rights and obligations of PacifiCorp’s wholesale energy contracts;

- working with the OGC and Credit Risk Management to implement industry standard master agreements with new and existing counterparties and any proposed changes to the standard agreements; and,
- providing timely and complete notifications of new contracts and contract updates to the Contract Optimization Manager to ensure accurate fair market valuation.

The DCA is responsible for coordination and cooperation with the Middle Office, Risk Management, Back Office and Finance functions to ensure all are working as part of an integrated team.

3.2.2. Front Office Functions and Responsibilities

The Front Office for PacifiCorp is responsible for the following risk management functions.

3.2.2.1. PacifiCorp Policy & Business Unit Procedures

The MD-T&O is responsible to:

- ensure Front Office compliance with this PacifiCorp Policy and business unit procedures;
- review and provide input to the Risk Management function relative to updates, modifications and/or additions to the PacifiCorp Policy; and,
- propose updates, modifications and/or additions to the business unit procedures governing Front Office operations, as necessary.

3.2.2.2. Fundamental and Market Analysis Data Support

The MD-T&O is responsible for ensuring that current market data are provided to the Resource Planning, Middle Office and Risk Management functions for input into the fundamentals and market analysis processes, including forward price curve generation. Data to be provided include:

- current transaction prices, including real time, for all points of delivery at which transactions were executed or other market information was obtained;
- market intelligence obtained with respect to competitors or customers; and,
- system operations information obtained through trading operations.

3.2.2.3. Transaction Execution

The MD-T&O is responsible for ensuring all executed transactions:

- are consistent with the strategy and objectives of the business unit and are approved at the appropriate levels;
- are executed by personnel authorized to transact on behalf of the business unit;

- are executed with approved counterparties;
- are within authorized market risk, credit risk or other limits at the trader, portfolio and business unit levels;
- are executed at competitive pricing obtained from independent sources (for liquid markets) or by obtaining structured pricing from the Structuring & Pricing group; and,
- are properly documented, including the designation of strategy (trade portfolio), the risk exposure being managed and the appropriate book designations are made.

3.2.2.4. Commercial Strategy

The MD-T&O is responsible for development and implementation of the commercial strategy with respect to ERM activities.

3.2.2.5. Generation, Load and Network Planning

The MD-T&O is responsible for coordination with transmission, generation, load and network planning activities to ensure that operational and reliability requirements, such as load forecasting and reserve requirements, are observed. The MD-T&O is also responsible for coordination with long term planning regarding generation, load, and network planning.

3.2.2.6. Production Planning

The MD-T&O is responsible for the following with respect to hydrogeneration and thermal generation.

Hydrogeneration:

- manage and maximize value of hydrogeneration resources with a balanced consideration for water supply uncertainty, power markets, system power requirements, water management, environmental and recreation objectives;
- develop operating plans and policies to effectively manage water supply to satisfy all multi-use objectives;
- fulfill PacifiCorp's commitment to the environment and license compliance;
- ensure delivery of generation schedules and water management objectives with ongoing communications to C&T Real Time staff and plant operators;
- provide resource pricing to C&T Real Time traders for Lewis River and Mid-Columbia generation resources;
- conduct maintenance and outage planning – proactively seek optimal maintenance strategies in coordination with Generation staff and plant requirements;

- manage hydro production forecasting/planning – prepare long term generation plans;
- prepare seasonal water supply forecasts for near term and long term hydro operations planning;
- provide technical guidance to control operators and staff, including communications with federal and local emergency services agencies; and,
- provide technical operational and hydrologic support for project licensing efforts.

Thermal generation:

- provide hourly estimates of thermal generation capability adjusted for any outages and operating restrictions;
- coordinate maintenance outages and timing strategies between power plant staff and market trading; and,
- prepare long term resource availability estimates for system position reporting.

3.3. Structuring & Pricing

3.3.1. Director-Structuring & Pricing (DSP)

The DSP reports directly to the SVP-C&T. The DSP has responsibilities to coordinate and cooperate with the Front Office, Middle Office, Risk Management, Back Office and Finance functions to ensure all are working as part of an integrated team.

3.3.2. Structuring & Pricing Functions and Responsibilities

The DSP has responsibilities to:

- review all proposed commodity, transmission, transportation and storage structured transactions to develop the methodology and models to analyze and value existing and prospective assets and transactions in conjunction with Risk Management;
- review and provide transaction and pricing analysis support to the business units to ensure that accepted processes are followed and the most appropriate models are used;
- act as a non-transacting part of the transaction team, providing structuring and portfolio management advice;
- with the support of the OGC and Procurement, negotiate and execute contracts for services and products that support structuring and pricing applications;
- work with Risk Management and Middle Office to develop and refine risk measurement methodologies used to help manage transaction risk;
- support development of commercial strategy by providing data and analyses to facilitate decision making relating to such issues as general strategy and more

specific issues such as the development of strategic approaches to system balancing and risk management; and,

- educate traders and management on risk measurement and reporting methodologies, and assist in the application of these principles to transactions under consideration for execution.

3.4. Resource Planning

Resource Planning is divided into four groups: Integrated Resource Planning (IRP), Load & Revenue Forecasting, Fundamental Analysis, and Demand Side Management (DSM). Resource Planning is responsible for the development of PacifiCorp's IRP, development of fundamental and market analysis, development and guidance of PacifiCorp's DSM policy and strategy, and development of Load and Revenue Forecasts for PacifiCorp. Management of Resource Planning is the responsibility of the Director of Resource Planning.

3.4.1. Director – Resource Planning (DRP)

The DRP reports to the SVP-C&T and shall have responsibility and authority to manage:

- the Resource Planning business plan as it relates to C&T and PacifiCorp strategy;
- the business unit's interface with external parties and the negotiation of all actions desired by these parties;
- development of the IRP;
- development of all required and requested Load and Revenue Forecasts;
- development of required long-term forward price curves and fundamental analysis in support of corporate efforts; and,
- development of Demand Side Management policy and assist in the implementation of this policy in the field and Front Office.

The DRP is also responsible to:

- ensure that all Resource Planning activities are in compliance with this PacifiCorp Policy and business unit procedures; and,
- ensure communication of all information to the necessary parties as required.

The DRP is responsible for coordination and cooperation with the Front Office, Risk Management, Back Office, Regulatory, Strategy, Generation, Transmission, and Finance functions to ensure all are working as part of an integrated team.

3.4.2. Resource Planning Functions and Responsibilities

The DRP is responsible for production of the following functions and responsibilities with respect to C&T operations:

- generate the official corporate forward price projections for long-term planning and MtM purposes to be available to the trading organizations;

- provide traders with information regarding physical factors that may affect commodity prices (gas, electricity, transmission, transportation, etc.);
- provide relevant documented market related information to traders that is timely, easily accessible and understandable;
- develop and implement demand forecasting methods and systems;
- monitor and report relationships between physical factors and commodity prices;
- monitor and report on other information providers and their performance;
- work closely with IT to develop and enhance tools such as the Trading Information System. Serve as liaison with IT and operating groups to develop and implement better software solutions for risk management and coordinate these solutions with the business units; and,
- participate in meetings such as Chief Executive Committee or PacifiCorp Risk Forum to provide supporting fundamental information.

3.4.3. Fundamental and Market Analysis Data Support

The DRP is responsible for providing current market data to the Front Office, Middle Office and Risk Management functions for input into the fundamentals and market analysis processes, including forward price curve generation. Analysis includes historical price analysis as well as current and forecast factors affecting commodity prices, and price movements. Analysis focuses on three areas:

- Supply side: common areas researched include physical factors affecting commodity prices, such as plant performance analysis, transmission issues etc.;
- Demand side: demand forecasting, with issues covered including macro-economic analysis and studies of competitor activity; and,
- Price studies: price volatility and correlation, including the effects of external factors (regulation), proposal of values for use in risk calculations and reviewing analysis for robustness.

3.4.4. Resource Planning Responsibilities with Respect to C&T

Resource Planning responsibilities with respect to C&T include the following:

- coordinate with all business units and Risk Management to provide a framework for prudent future actions ensuring PacifiCorp continues to provide reliable and least cost risk adjusted electric service to its customers;
- employ a robust and objective analytical framework to simulate the integration of new resource alternatives with PacifiCorp's existing generation and transmission assets in its long term planning as represented in an integrated resource plan; and,
- apply tractable methodology appropriate for modeling risk and uncertainty inherent in resource planning.

3.4.5. PacifiCorp Policy & Business Unit Procedures

The DRP is responsible to:

- ensure Resource Planning compliance with this PacifiCorp Policy and business unit procedures;
- review and provide input to the Risk Management function relative to updates, modifications and/or additions to the PacifiCorp Policy; and,
- propose updates, modifications and/or additions to the business unit procedures governing Resource Planning, as necessary.

3.4.6. Director of Load and Revenue Forecasting (DL&RF)

The DL&RF reports to the DRP. The DL&RF is responsible for the development and dissemination of the multiple Load and Revenue Forecasts used by several departments within PacifiCorp.

The DL&RF has the responsibility and authority to:

- generate the official corporate control area load and peak forecasts for all planning activity and to be available to the trading organizations to support forecast decisions;
- provide the official corporate retail related revenue forecasts for all planning activity;
- determine the weather impact on sales and peak load;
- develop and implement forecasting methods and systems;
- monitor and report on economic and customer behaviors that impact load levels or shapes; and,
- provide testimony and assistance in support of regulatory, IRP, and other efforts and issues.

The DL&RF is responsible for coordination and cooperation with the Finance, Front Office and Resource Planning functions to ensure all are working as part of an integrated team.

3.4.7. Director – Demand Side Management (DDSM)

The DDSM reports to the DRP. The DDSM is responsible for:

- Demand Side Management (DSM) policy and strategy;
- coordination of the multi-departmental DSM Business Team which coordinates DSM activities throughout PacifiCorp. This team consists of representatives from Regulation, DSM Program Implementation, Energy Services, Customer Services, Distribution Planning, Customer Communications, Corporate Communications and Commercial and Trading;
- treatment of DSM in PacifiCorp's integrated resource planning; and,

- liaison with regulatory staffs, environmental advocacy organizations and other external stakeholders.

3.4.8. Manager – Integrated Resource Planning (MIRP)

The MIRP reports to the DRP. The MIRP is responsible to:

- provide to all six states PacifiCorp's least cost/risk weighted IRP on a bi-yearly basis;
- provide updates to the IRP as required in all six states;
- coordinate the inputs into the Henwood dispatch model from the necessary groups, to include Generation, Transmission, Front Office, Fuels, Fundamentals, Environmental, Load Forecasting, and Regulation;
- conduct regular IRP public input meetings for all PacifiCorp jurisdictions and interested parties;
- provide input to the Business Planning process as needed;
- provide information on IRP policy and planning as needed;
- upon issuing of the IRP, conduct a communication program to support the acknowledgement of the IRP and the corresponding action plan;
- provide testimony and assistance in support of RFP, QF, and other corporate efforts and issues; and,
- assist in executing the IRP action plan.

The MIRP is responsible for coordination and cooperation with the Front Office, Risk Management, Regulatory, Generation, Transmission, RP functions to ensure all are working as part of an integrated team.

3.4.9. Manager – Fundamental Analysis (MFA)

The MFA reports to the DRP. The MFA is responsible for:

- generating the official corporate forward price projections for long-term planning and MtM purposes to be available to the trading organizations;
- providing traders with information regarding supply and demand factors that may affect market prices of commodities they trade (gas, electricity, transmission, transportation, etc.);
- provide relevant documented market related information to traders that is timely, easily accessible and understandable;
- develop and implement regional market supply and demand forecasting methods and systems;
- monitor and report relationships between physical factors and commodity prices;

- monitor and report on other information providers and their performance;
- work closely with Information Technology (IT) to develop and enhance tools such as the Trading Information System;
- serve as liaison with IT and operating groups to develop and implement better software solutions for risk management and coordinate these solutions with the business units; and,
- participate in meetings such as Chief Executive Committee or PacifiCorp Risk Forum to provide supporting fundamental information.

The MFA is responsible for coordination and cooperation with the Middle Office, Risk Management, Front Office and Executive functions to ensure all are working as part of an integrated team. Specifically, the MFA is responsible to communicate relevant data and information to the Front Office trading group to ensure timely, accurate and complete Fundamental knowledge is available for optimal trading decisions.

3.5. Back Office and C&T Finance

Back Office and/or C&T Finance calculates and verifies all profit and loss information in compliance with Generally Accepted Accounting Principles (GAAP), implements Statement on Financial Accounting Standards (SFAS), Emerging Issues Task Force (EITF) and other accounting standards for all transactions. Within the scope of such standards, Back Office performs accounts receivable and accounts payable functions for all transactions, performs cash management activities, controls and maintains all margin accounts, and enforces accounting and tax management documentation requirements.

3.5.1. Managing Director – Back Office

The Managing Director-Back Office (MDBO) reports to the SVP-C&T. The MDBO is responsible for after-the-fact activities in support of the contract and transaction processes, which include the following functions:

- process power contracts to ensure compliance and the capture of full value;
- aggregate monthly transaction data including settlement amounts and counterparty accounts receivable and payable by transaction;
- as appropriate and authorized, perform transaction settlements including netting of receivables and payables;
- record all energy trading transactions in the general ledger on a monthly basis;
- issue invoices to customers and pay vendors;
- securely maintain customer and vendor information;
- issue payment and receipt instructions;
- monitor receivable aging reports, notification of Front Office, Middle Office and Risk Management of delinquent counterparties and billing of interest on past due accounts;

- notify Front Office, Middle Office, Credit and Risk Management of counterparty defaults;
- perform profit and loss calculation and reconciliation of applicable general ledger accounts;
- in consultation with the OGC, complete or support (as appropriate) all necessary regulatory filing requirements for the SEC, Federal Energy Regulatory Commission, state commissions and other agencies as required;
- perform cash management activities including cash forecasts;
- control and maintain all margin accounts;
- provide analysis support, billing, and accounting;
- maintain a financial and energy record system with hourly detail support;
- perform trial balance reconciliation and reviews with Corporate Accounting;
- reconcile financial reporting components accounting system values;
- maintain proper internal controls and provide review of accounting contract detail;
- interrogate meters, maintain profile load history and sponsor metering improvements;
- track all energy to balance loads and resources, design and implement control checks to materially balance the system;
- report jurisdictional load;
- provide C&T business unit budgeting and variance analysis;
- contribute to regulatory reporting;
- provide for corporate reporting and tax support;
- address commission data and discovery requests;
- support rate case filing;
- support natural gas and electric contract administration;
- provide DSM administration; and,
- in consultation with the OGC, provide for compliance reporting to meet all FERC, GAAP, SEC, SFAS and EITF accounting standards.

3.5.2. Managing Director – Controller (MDC)

The MDC reports to the SVP-C&T. The MDC is responsible for budgeting, strategic support, financial controls and reporting, which include the following functions:

- support of Finance/Accounting initiatives and requirements;

- financial forecasting associated with current month, quarter, year end results and variance analysis;
- input into the ten year long-term financial forecast;
- budgeting, actual comparison, scorecards, operating plans and top ten risks report;
- business planning, investment case financials and support for senior management;
- Sarbanes-Oxley s404 compliance, accounting policies & procedures and business input into accounting system enhancements;
- business compliance with accounting standards including SFAS 133/149 and IAS 39 accounting and other relevant accounting standards (EITF 01-08, EITF 03-11, FIN 39, FIN 46, SFAS 13, IAS 17);
- ledger control and accounting;
- disclose net power detail for SEC reporting;
- oversee external and internal audit relationships; and,
- maintain and follow Group and PacifiCorp accounting procedures.

3.6. Middle Office

The Middle Office shall be independent of and supportive to the Front Office. PacifiCorp's Middle Office is the responsibility of and reports to Risk Management. The Middle Office is responsible for development and implementation of the day-to-day operational systems and processes for the business unit's EMRM activities. Such activities include forward curve generation, and calculation and reporting in tractable form of position, mark-to-market (MtM), performance measurement, Value-at-Risk (VaR), Profit-at-Risk (PaR) and other similar information. The Middle Office shall also deliver clear and concise explanations for any material day-on-day changes to all reported metrics.

3.6.1. Managing Director – Middle Office (MDMO)

The MDMO reports directly to the Vice President–PacifiCorp Risk Management and has responsibility and authority to:

- act independently of the Front Office to maintain a segregation of duties with respect to EMRM activities;
- maintain and enhance the analytical techniques used to support the business unit's EMRM activities and ensure that they are properly applied to support of the business unit's EMRM activities;
- develop, implement and enhance the systems and processes used for day-to-day operations of all EMRM activities;
- develop, implement and enhance the management reporting framework for all EMRM activities;

- maintain historical market data and EMRM transaction information; and,
- manage the Middle Office functions and responsibilities as contained in Section 3.6.2 herein.

The MDMO is responsible for coordination and cooperation with the Front Office, Risk Management, Back Office and Finance functions to ensure all are working as part of an integrated team. In addition, the MDMO is responsible to provide timely and accurate information in support of other organizations' administration of wholesale energy contracts.

Successful delivery on Middle Office objectives is significantly dependent on the availability of quality Information Technology support for risk analytic and reporting systems and data stores. The MDMO will work cooperatively with the Corporate IT group to ensure that sufficient resources are available to support the deliverables of the Middle Office.

3.6.2. Middle Office Functions and Responsibilities

The Middle Office bears responsibility for the following functions in support of C&T operations.

3.6.2.1. PacifiCorp Policy and Business Unit Procedures

The MDMO has responsibility for the following:

- Middle Office compliance with Group Policy, this PacifiCorp Policy and business unit procedures;
- reviewing and providing input to the Risk Management function relative to updates, modifications and/or additions to the PacifiCorp Policy; and,
- proposing updates, modifications and/or additions to the business unit procedures governing Middle Office operations, as necessary.

3.6.2.2. Portfolio Risk Measurement

The MDMO is responsible for development, implementation and enhancement of portfolio risk measurement methodologies, subject to review and approval by Risk Management. These functions include:

- implementation, maintenance and enhancement of models and tools to value energy assets and investments;
- development, implementation, maintenance and enhancement of information systems used for portfolio risk measurement; and,
- maintenance of forward curve data used by asset valuation tools for all points of delivery and for all commodities where a position exists or will potentially exist in the business unit.

3.6.2.3. Risk Control and Compliance

The MDMO is responsible for the following risk control and compliance responsibilities:

- primary, prompt control over trading records, ensuring the proper recording and reporting of all transactions;
- daily calculation of exposures associated with EMRM activities in a manner accessible and transparent to senior management;
- support for the development and quantification of risk limits (in conjunction with Risk Management) for recommendation to the PacifiCorp Risk Forum;
- production of the reports for market and credit risk, limits, and position; and,
- reporting to the MD-T&O and VP-PacifiCorp Risk Management when a violation of limits or other constraints is observed.

3.6.2.4. Information Technology Systems

On an ongoing basis and with the support of the OGC and Procurement Departments as required, the Middle Office shall coordinate with IT and Risk Management to develop and enhance the EMRM Information Systems, including modifications to trading related systems as appropriate.

3.6.2.5. Trader Support

The MDMO shall provide relevant, timely and accessible portfolio risk, value and position information to traders. This includes both analytical information as described above and other reports or studies requested by Front Office in support of EMRM activities. Such support includes the ongoing development of the analytical and methodological tools used by the Front Office, following review and/or approval by Risk Management.

3.6.2.6. Transaction Evaluation

The MDMO has responsibility for quantifying the value and risk (both market and credit) of transactions executed by Front Office. Further trader support is provided through assistance in the implementation of robust risk and valuation models for transactions, including those concerned with new products, and standard models for repeat transactions.

3.6.2.7. Commercial Strategy

The MDMO shall be responsible for MO support of the development of commercial strategy by providing data and analyses as requested.

3.6.2.8. Trading Operations

The MDMO shall ensure that MO supports traders through the publication and distribution of technical data. Examples include providing the daily corporate forward price curves (for MtM purposes) to the trading organizations, as well as

providing MtM valuation for each individual transaction. Following consummation of a trade, the Middle Office is responsible to:

- conduct timely check out with all counterparties and forwarding the relevant data to the Back Office;
- create confirms and ensure that they are timely executed by counterparties. For deals not confirmed within the allotted time, report the missing confirm to traders and management;
- provide written trade confirmation of all relevant business terms and conditions to counterparties;
- verify the receipt, completeness and accuracy of all incoming confirms for purchases; and,
- maintain a list of signatories approved by the business unit heads for each trading floor.

3.6.2.9. Generation and Network Planning

The MDMO has responsibility for MO's role in defining the methods by which plant uncertainty is treated and how PacifiCorp's transmission asset base is included in portfolio analytics. In this regard, Middle Office is responsible to continually improve methods and systems used in the representation and analysis of the thermal generation and transmission assets of the business unit.

3.6.2.10. Management Reporting

The MDMO shall ensure that Middle Office produces risk and operational reports (see Section 10.1) which quantify the expected impact of new transactions and changes to methodologies and assumptions on the PacifiCorp energy portfolio. The methodology and format underlying EMRM reports provided to the PacifiCorp Risk Forum, the GERC, the ET and the Group Board is subject to review and approval by Risk Management.

3.7. Risk Management

Risk Management is responsible for independent and robust review and challenge of all EMRM activities to ensure compliance with the Group Policy, this PacifiCorp Policy and the business unit procedures. Risk Management will provide objective and independent risk assessment, while remaining functionally and organizationally independent of the operating business units. Risk Management will provide the ET, GERC and PacifiCorp Risk Forum with independent due diligence for new strategies, products and risk management methodologies. Risk Management advises the PacifiCorp Risk Forum or ET, and reviews and recommends to the Group Board appropriate risk measurement methodology and risk limits.

Risk Management shall identify, measure, prioritize, propose mitigation for, and report all business risks associated with energy and related products. Risk Management shall review assumptions and review and approve inputs, methodologies, models, processes and validation of outputs for all operational processes developed by the Front Office, Middle Office and Back Office related to EMRM activities to ensure compliance with the PacifiCorp Policy.

The Risk Management function is comprised of a Group-level function generally responsible for coordination of all risk management and control activities across the Group and for compliance with Group and PacifiCorp EMRM policies. This PacifiCorp Policy governs the EMRM activities of PacifiCorp only.

3.7.1. Group Energy Risk Director

The Group Energy Risk function is headed by the Group Energy Risk Director (GERD) who has responsibility and authority for the Group Energy Risk Management function. The GERD reports directly to the Group Finance Director, and bears the following key responsibilities:

- to provide executive management with independent consolidated risk reports and any other EMRM data necessary to fulfill the executive management's defined roles and responsibilities;
- to ensure that the operation of Risk Management is independent of PacifiCorp business units engaged in EMRM activities and to ensure that proper controls are maintained;
- to maintain the Group Policy;
- to ensure that implementation of the PacifiCorp Policy is robust and consistent with the Group Policy;
- ensure that the impact on corporate earnings of activities governed by this PacifiCorp Policy is fully understood and analyzed in a consistent manner across the Group;
- to the maximum extent permitted by regulations and regulatory Codes of Conduct, ensure that development of risk measurement, valuation and performance methodologies, reporting systems (including pricing and other trading and risk management applications), and performance models and other market data are consistent across the Group;
- to develop EMRM trading and risk management training programs for executive management;
- to provide advice to the executive management regarding the risks associated with corporate acquisitions and other major projects;
- to review the risk analyses of large and/or complex transactions outside of normal delegated authority levels, or approved instrument definitions; and,
- to approve the detailed procedures and changes to procedures required to implement Group Policy.

3.7.2. Vice President – PacifiCorp Risk Management

The Vice President – PacifiCorp Risk Management (VP-RM) reports to the GERD and is responsible for ensuring that EMRM activities comply with this PacifiCorp Policy. The VP-RM is responsible for operating a Risk Management function that is independent of the business units engaged in EMRM activities. Reporting to the GERD, the VP-RM has responsibility to provide any required input for GERC and PacifiCorp Risk Forum

meetings. The VP-RM also provides information and data to the GERC, PacifiCorp Risk Forum, business unit heads, and others on EMRM tools and methodologies to allow these groups to fulfill their managerial responsibilities.

The VP-RM shall ensure that all PacifiCorp EMRM activities are in compliance with Group Policy, the PacifiCorp Policy and PacifiCorp operational procedures, ensure that all Code of Conduct provisions are observed in conducting risk management activities, including the prohibition of improper information transfer between regulated and unregulated business units.

The VP-RM shall have general authority to review and approve all inputs, models, processes and outputs for any risk and performance measurement relating to EMRM activities, ensuring that they are in compliance with this PacifiCorp Policy. The VP-RM reviews assumptions for any risk and performance measurement, valuation, monitoring and reporting functions to ensure that all EMRM activities are in compliance with this PacifiCorp Policy. The VP-RM may request that the overall risk of the portfolio be altered via execution of transactions by making such requests to the SVP of C&T or the MD-T&O.

Specific responsibilities of the VP-RM include development of principles, approval of the design and implementation and/or output validation of the following functions:

- market and credit risk measurement models, systems and procedures for the portfolio and for individual transactions;
- portfolio and transaction valuation models, systems and procedures;
- sources and procedures for obtaining market data;
- stress testing including price and other assumptions to be used; and,
- performance measurement models, systems and procedures.

The VP-RM is responsible for ensuring that all Risk Management responsibilities are performed in coordination and cooperation with the Front Office, Middle Office, Back Office, Finance and other functions to ensure all are working as an integrated team.

3.7.3. Risk Management Functions and Responsibilities

As a Division engaged in energy management activities, PacifiCorp is responsible for maintaining a risk management strategy consistent with the Group Risk and Control Framework. This strategy will be updated continuously and will define:

- the major risks facing PacifiCorp and Group relating to energy transaction activity together with the scale and likelihood of the risk;
- the operational controls and measures for risk mitigation;
- any development actions required; and,
- the responsibility for risk mitigation.

From the energy management businesses' risk management strategies, a regular report

will be produced for the ET and PacifiCorp Board defining the most significant risks facing the energy management activity along with the actions and responsibilities for mitigation.

The Risk Management function will work with the C&T Business Controls group and the Business Controls Office of the Chief Financial Organization to ensure that EMRM strategy and regular reporting to the ET and PacifiCorp Board are robust and sufficient for their purpose, and that they effectively report on risk associated with C&T operations.

The Risk Management function for PacifiCorp is performed through the following functions and responsibilities.

3.7.3.1. PacifiCorp Policy and Business Unit Procedures

The VP-RM is responsible for ensuring that a robust and effective Risk Management framework is in place that allows for identification, measurement, monitoring, control and reporting of risks associated with EMRM activities. A key aspect of this responsibility is the development and maintenance of this PacifiCorp Policy and all procedures related to PacifiCorp EMRM activities. The VP-RM shall have responsibility and authority to:

- coordinate with the business units to consider additions and/or modifications to the PacifiCorp Policy and business unit procedures;
- recommend additions and/or modifications to this PacifiCorp Policy and business unit procedures to the PacifiCorp Risk Forum and/or GERC and ET, as appropriate;
- maintain the official copy of the PacifiCorp Policy;
- ensure all copies of the PacifiCorp Policy and all business unit procedures are up to date; and,
- ensure that each business unit has a set of procedures consistent with Group Policy and this PacifiCorp Policy and actively participates in the implementation and maintenance of all documentation.

3.7.3.2. Transaction Evaluation

Prior to execution, the VP-RM shall provide an independent challenge to the value and risk associated with all transactions. To perform this function, the VP-RM shall have authority to:

- review and approve risk and valuation measurement models, procedures, and algorithms for all transactions and portfolios;
- review all energy transactions to ensure that appropriate models and assumptions are used, accounting treatment is designated, and appropriate processes followed; and,
- give independent challenge to the value and risk of transactions, and advise decision-makers with respect to their approval.

3.7.3.3. Portfolio Risk Measurement

The VP-RM is responsible for development of qualitatively defined scenarios for use in scenario testing and the evaluation of risk and approving the quantitative representations of the scenarios for use in portfolio risk management and scenario analysis.

3.7.3.4. Independent Risk Control and Compliance

To provide independent risk control and compliance, the VP-RM shall be authorized and responsible to:

- approve the design and implementation of internal controls;
- coordinate with the C&T Business Controls group and the Business Controls Office of the Chief Financial Organization with respect to regular reporting to the Group Risk & Control Framework;
- regularly audit and validate the assumptions underlying risk calculations; and,
- investigate and analyze variance and exception reports including recommendation of remedying actions.

3.7.3.5. Information Systems

The VP-RM shall ensure that the systems and algorithms used to support the trading function and the calculation of portfolio position, performance and risk are robust and accurate. The VP-RM shall have authority to review and approve the development and improvement of the EMRM Information System. Such developments/improvements, including the modelling and application of transactions, shall be approved by the VP-RM prior to implementation.

3.7.3.6. Commercial Strategy

To provide an independent challenge of the value and risk associated with commercial and trading strategies, the VP-RM shall have the responsibility and authority to:

- review all business commercial and trading strategies and ensure that appropriate models are used and proper processes are followed;
- review key analyses conducted within the business units in the development and evaluation of strategies;
- provide independent due diligence surrounding the analytics and performance of existing or proposed strategies;
- support Front Office in development and review of strategies; and,
- support analytical work regarding the evaluation of commercial acquisitions and asset management agreements.

3.7.3.7. Generation, Load and Network Planning

The VP-RM shall ensure that methods used in demand forecasting and plant and network performance modelling are performed in a manner which supports accurate and robust reporting of position and risk evaluation, and that they are consistent with this PacifiCorp Policy.

3.7.3.8. Management Reporting

Effective risk control requires timely and accurate risk reports. The VP-RM shall have authority to review and approve the format, frequency, distribution and content of all reports to the PacifiCorp Risk Forum, GERC, ET and PacifiCorp or Group Board related to EMRM activities, and to ensure that management reporting is timely and accurate.

The VP-RM shall have the authority and responsibility to perform the following management reporting:

- report violations of policy and procedures, including limit violations, and resolutions; and,
- explain significant changes to the risk position.

3.7.3.9. Performance Measurement

The VP-RM shall have the authority and responsibility to review the methodologies used in business unit EMRM activity performance measurement and transfer price calculations.

3.7.4. Managing Director – Middle Office (MDMO)

As described in Section 3.6, the MDMO reports directly to the Vice President–PacifiCorp Risk Management and has responsibilities and authorities as therein described.

3.8. Credit Risk Management

The Director - US Energy Credit Risk Management (DCR) reports to the Group Credit Director. The DCR shall have the authority and responsibility to assess and monitor credit risk. Credit risk is the risk of loss caused by the failure of a third party to adhere to its commitments. This includes, for example, inability to collect for goods delivered or services performed or loss of gains on open market positions with defaulting counterparties. Through asset management, Credit assists in maximizing recovery from problem assets, such as claims in a customer's bankruptcy estate and manages collection of delinquent accounts.

Credit Functions and Responsibilities

The DCR has responsibility and authority to:

- ensure that credit risk is measured and managed on a basis that is consistent with practices of other Divisions;

- develop and administer appropriate procedures for reporting counterparty and portfolio credit exposure at appropriate intervals on a basis that is consistent with other divisions;
- ensure that counterparties have been evaluated for creditworthiness and have been authorized by Credit and have appropriate credit protections in place prior to execution of any transactions;
- ensure that the aggregate level of credit risk for PacifiCorp is measured and limited as required by the establishment and allocation of risk capital;
- work with Front Office to place PacifiCorp in a payable position with counterparties that have a high probability of default;
- establish counterparty limits and periodically review these every 18 months or less;
- notify Front Office of present or potential counterparties judged unsuitable for transactions with PacifiCorp by reason of creditworthiness;
- with the other Divisions, monitor and limit the proportion of the Group's total credit exposure concentrated within any one counterparty, as approved by the ET;
- work with the OGC to ensure power sale and trading enabling transactional documentation contains provisions, structures, and ancillary agreements as appropriate to protect PacifiCorp from losses due to credit risk;
- develop and administer appropriate procedures for credit violations, credit exemption certificates and emergency credit exceptions;
- assure that trading counterparties have an appropriate investment-grade credit rating, have a guarantee from an investment-grade entity, or post acceptable collateral as established and approved by the ET, in conjunction with review by the OGC;
- manage the group in compliance with the Credit Risk policies and procedures; and,
- monitor the collateral positions, Letters of Credit, margin payments and corporate guarantees to ensure appropriate levels are in place.

3.9. Insurance Risk Management

The Insurance Risk Management function is headed by the Group Insurance Director who reports directly to the GERD. The Group Insurance Director is responsible for managing an appropriate level of property and casualty risk against the cost to PacifiCorp for securing insurance policies to mitigate this risk.

Insurance Risk Management functions are as follow:

- devise and successfully implement an insurance strategy that complies with all statutory, regulatory and other legally imposed insurance obligations;
- ensure that the Corporate insurance program is aligned with the business unit's operating activities;

- ensure the insurance provisions incorporated into purchase and supply agreements with third parties provide us with sufficient risk protection;
- ensure that the cost, premiums and deductibles of PacifiCorp's insurance program are cost effective in light of the risk being mitigated;
- oversee the negotiation and provision of letters of credit and surety bonds to secure operating activities of the business units;
- provide technical expertise and guidance on insurance related issues;
- approve and recommend changes to PacifiCorp's insurance program in light of changes and developments in the market; and,
- provide information to Regulation in support rating rate making activities.

3.10. Office of the General Counsel

The PacifiCorp OGC, under the direction of PacifiCorp's General Counsel², provides a critical trading and risk management function, protecting PacifiCorp from both risk of loss and risk of liability. Also known as the Legal Department, OGC supports business unit EMRM activities by reviewing and preparing master agreements, trading documents and transactions to ensure that the contracts represent the intent of the parties to the transaction, adequately protect PacifiCorp from losses in the event of a legal risk, and are enforceable. OGC also assists in the review of counterparties for legal status, manages pending and threatened litigation and government information requests, and manages the exercise of legal remedies respecting collateral guarantees and problem assets.

3.10.1. OGC Functions and Responsibilities

OGC's responsibilities include the following:

- review and approve all new and changed master agreements or standard forms and the customized schedules, such as the ISDA and GISB Master Agreements, WSPP Agreement, and EEI Master Power Purchase & Sale Agreement and their collateral annexes;
- review and approve the form of all agreements used for documenting transactions;
- render or manage the rendering of all required legal review and assistance to ensure PacifiCorp compliance with all applicable legal compliance standards (including without limitation Sarbanes-Oxley), Codes of Conduct, and regulatory reporting requirements;
- prospectively review and approve any negotiated or global changes to standard forms;
- review and approve all transaction confirmations that do not conform to approved content and form;

² PacifiCorp's General Counsel reports to the Chief Executive Officer, PacifiCorp.

- review and approve all collateral and guarantee documents required by the Credit Department, before entering into any transaction;
- managing the asset recovery process with the Credit Department; and,
- prospectively review counterparty candidates if the candidate is:
 - located in a jurisdiction or state in which PacifiCorp has not previously transacted with a counterparty;
 - of a classification, such as municipality or Indian tribe, with which PacifiCorp has not previously traded, or a type of entity with which PacifiCorp has not previously traded; or,
 - a domestic or foreign governmental entity.

4. INDEPENDENCE

Independence, as it relates to ERM activities, is maintained by separating persons and organizations with transaction execution authority from persons and organizations involved in confirmation, and reporting-related and oversight processes relative to transaction execution. Persons involved in confirmation and reporting of executed transactions must be independent of persons responsible for settlement of such transactions. Based on this definition of independence, and relative to the current organizational structure at each of the Divisions, two functions or activities are deemed to be independent if the reporting relationship between the two functions or activities is separate and distinct.

Independence can also be achieved through independent and informed challenge from the Risk Management function and integration of Risk Management resources into the day-to-day conduct of those activities in which it is critical to maintain independence. These activities include, but are not limited to, forward curve production, portfolio position determination, valuation and reporting and fundamental analysis. The degree to which Risk Management resources are integrated into PacifiCorp activities shall be defined in PacifiCorp's Policy and operational procedures.

5. SEGREGATION OF DUTIES

Segregation of duties applies to any two sequential major steps in the process of initiating a transaction through to financial settlement with the counterparty and accounting for the transaction in the official financial and other reporting records of PacifiCorp (initiation with a counterparty, structuring and pricing, trade execution and capture, confirmation, scheduling and delivery, risk management and control, settlement and accounting). No one person or group at the first line supervisor level shall be responsible for consecutive major steps in the energy management process either within or between the Front, Middle or Back Offices.

PacifiCorp's operational procedures, shall define the commercial groups within PacifiCorp with primary responsibilities of the Front, Middle and Back Offices functions as defined below.

6. RISK MANAGEMENT

PacifiCorp shall maintain a risk management, measurement and control framework that measures

PacifiCorp portfolio risks and energy management activity in a clear and accurate manner. The Risk Management function shall be responsible for ensuring that this framework measures portfolio risks to PacifiCorp and Group in a fair, accurate, consistent and robust manner, and that it is consistent with the following:

- accuracy: the data provided by the measures needs to be correct and up-to-date;
- relevance: the measures should be compatible with the risk control framework, facilitate control and be capable of supporting the limit structure;
- objectivity: they need to be clear and give an unbiased message;
- practicality: the measures must be cost effective, easy to monitor and take into account operational constraints and market conditions; and,
- transparency: the risk measures should be capable of expression in documented, peer-reviewable form.

Measures of risk can be divided into a number of different categories.

6.1. Portfolio Structure

Transactions will be classified within one or more books (aggregating similar risks) utilized to measure risks, mitigate risks, create value or aid in price discovery. Designated books will have separate and aggregate exposure limits. Risk Management shall review and approve the book structure to ensure that the structure adequately captures and partitions transactions with similar risk characteristics into individual books.

6.1.1. Book Description

The Trading Books are designed to contain “like risks”; that is, risks which have similar characteristics and can be managed in a homogeneous manner. There are several groups of Books such as Asset Books, Transaction Books, Commodity Books, Natural Gas Books and Black Fuels Books. The books are built from individual transactions, and all changes in position, whether caused from a change in load or generation or any other feature, shall be traded incrementally and captured in the transaction entry application. Specific books are assigned to specific traders who have responsibility for book performance.

Assets Books contain the physical assets to be managed such as thermal plants, hydro plants, and retail load. These assets are modeled as financial instruments and include all physical and economic constraints. Sub-Books account for the positions associated with assets such as green tags and reserves. Commodities in the Asset Books are traded in a completely liquid manner with (only) PacifiCorp Commodity Books. However, the asset managers can transact for green tags and reserves with the market. These positions (green tags and reserves) become a viable focus of activity with known and controlled exposures. Retail load is supplied in a completely liquid manner from the Commodity Books.

Transaction Books include originated transactions. All forward structured bilateral transactions are entered in the Origination Book. Trades are immediately transferred at market into Forward and Cash Books where the traders manage them. Agreements such

as DSM and other such arrangements (irrigation, interruptible contracts) are entered in the Origination Book with imbalances transferred to the Commodity Books.

Commodity Books include the Forward, Cash and Real-time Books. The Cash Book traders manage daily, balance-of-month and prompt month transactions. The Real-time desk manages the intra-day transactions. The Forward Book traders manage the commodity position and keep the position within limits and trade the spreads.

Natural Gas Book includes the purchase, sale, transportation and storage of natural gas. The natural gas traders are responsible for all of the supply to the gas-fired generation facilities.

Black Fuels Book is to be developed at a later date. Once approved, the trading book structure shall not be changed without coordination by the Front Office, Middle Office and Risk Management and approval by the PacifiCorp Risk Forum. The current approved trading book structure is described in detail in the business unit procedures.

6.2. Market Risk

Market risk is an aggregated term for uncertainty generated by market-wide price movement, and presents itself as the potential for changes in portfolio mark-to-market due to generalized changes in price levels. Measures of market risk are specified, developed and continually improved by Middle Office and Risk Management, and final approval is given by the PacifiCorp Risk Forum.

Resource Planning has a lead responsibility for the forecasting and assessment of the uncertainty of physical volumes and capacities (including generation, load and network). This analysis is of primary importance for the effective control of volume risk. Risk Management gives final approval of reports and methods used in the assessment of volume risk. All IT systems, tools and reports which are used in the measurement of market risk are developed and implemented by Middle Office, subject to final approval by Risk Management.

6.2.1. Mark-to-Market

On a daily basis, both individual contracts and the portfolio shall be marked-to-market using the most current estimates of forward market prices and forecasts of physical and financial position.

Note that this measure uses prices at which positions are valued directly from the current forward curve estimates, and takes no account of liquidity risks that may be encountered if, in reality, all positions were to be closed.

6.3. Value-at-Risk

6.3.1. Historical Value at Risk

Historical Value at Risk (HVaR) is a “look-back” calculation using the current position and historical price volatility over a selected historical period (employing historical prices for the period beginning March 2000). It yields information about the exposure of the current position to past events of large price volatility. It is a simple, straightforward methodology, which can be readily implemented on a consistent basis across

commodities and locations. It ensures the HVaR measure is understood by all and interpreted in a uniform manner across the Group. The HVaR methodology attributes are:

- a holding period of one week (five trading days);
- a 99% confidence level; and,
- a volatility calculation based on historic price data over a period of time sufficient to capture significant historical price movements.

6.3.2. Stress Testing

Stress testing is the process of determining how much the value of a portfolio can fall under selected market conditions. Stress testing consists of generating forward price scenarios that reflect a desired set of market conditions and valuing the portfolio in that context. Stress testing demonstrates the impacts of extraordinary market conditions on the value of transactions and/or portfolios, with the aim of identifying any particular concentrations of risk and/or sensitivities to price movements that are not necessarily captured in the HVaR calculation.

6.4. Credit Risk

Credit risk is the financial exposure to the business generated by the potential default of third parties in fulfilling their contractual obligations. Credit risk is measured and monitored on both a counterparty and portfolio basis in accordance with approved risk limits. Credit risk management is discussed in Section 3.8.

6.5. Legal Risk

Legal risk is the risk of loss or liability from inadequate documentation or dealing with unauthorized counterparties, among other sources. Management of legal risk is discussed in Section 3.10.

6.6. Insurance Risk

Insurance risk is the risk of loss or liability from inadequate or improperly structured insurance programs that do not sufficiently insulate PacifiCorp from unexpected loss events.

6.7. Operational Risk

Operational risk is the financial exposure associated with potential interruptions in the physical operation of the system's generation, transmission, and other critical resources.

Operational risk is measured through the impacts of key operational failures on MtM as expected supplies of "in-the-money" commodity at market prices. Operational risk is associated with generation, transmission, and other key system assets subject to service interruption.

7. LIMIT STRUCTURE

Limits are an essential element of ERM risk control, as they restrict aggregate risk to the level of capital risk approved by the Group Board. Limits provide objective and independent

parameters that must be observed in practice. Risk limits are disaggregated from Group Board-authorized total risk capital by the PacifiCorp Risk Forum, and are defined as “management” and “absolute”. PacifiCorp’s limit structure shall be consistent with the principles and provisions established in Group Policy.

Management limits are absolute risk limits associated with specified classes of EMRM activity that, when exceeded, require a discussion among Front Office, Middle Office and Risk Management to determine the timely and appropriate actions to be taken. Such actions could include reducing the exposure to within the management limit, or requesting a temporary increase in the management limit to allow an adequate time period to prudently manage the portfolio without taking unnecessary losses. Requests of this nature are to be directed to the PacifiCorp Risk Forum, or VP-RM as delegated by the PacifiCorp Risk Forum, to allow an adequate time period to prudently manage the portfolio without taking unnecessary losses.

Absolute limits are “hard” limits that, when exceeded, require discussion among Front Office, Middle Office and Risk Management to determine the most appropriate actions to be taken to reduce portfolio risk exposure to within the absolute limit in a minimum amount of time. The actions to be taken are determined by the Front Office, Middle Office and Risk Management and presented to the PacifiCorp Risk Forum for approval (time permitting). In the event that action must be taken immediately to reduce the portfolio risk exposure to within the absolute limit, the MD-T&O and VP-RM must agree on the action and the VP-RM shall promptly report such action to the PacifiCorp Risk Forum. Limits shall include operational constraints, portfolio position limits and transaction and portfolio financial limits consistent with market conditions. Such absolute limits shall be approved and modified from time to time by the PacifiCorp Risk Forum and shall be consistent with the risk capital approved by the Group Board. Any changes in limits approved by the PacifiCorp Risk Forum shall be reported to the ET at the next scheduled meeting.

Credit limits are absolute limits. However, in the event a credit limit is exceeded due to circumstances outside of the control of the Front Office as determined by Risk Management and Credit Risk Management, Front Office has one trading day to bring the exposure within the credit limit unless otherwise agreed to by Risk Management and Credit Risk Management. In event that there is a credit limit violation the notification procedures shall be adhered to as outlined herein.

Absolute limits require absolute compliance. A business unit violating a limit must take immediate action to notify the Middle Office and Risk Management. Managers of Front Office, Middle Office and Risk Management must discuss and agree upon corrective measures to be taken. Risk Management shall have responsibility to report any limit violations and agreed-upon corrective measures to the PacifiCorp Risk Forum and ET. **No employee shall knowingly enter into any transaction or trade beyond authorized limits without proper authority to do so. The detailed limit structure and values of limits are described in the business unit procedures and in Appendix B.**

To ensure that the trading operation can be responsive to the markets and to the needs of the Group, a structure of delegated authority is implemented which empowers Front Office, Middle Office and Risk Management to make appropriate decisions within delegated levels of authority limits. Transacting in commodity markets normally requires real-time decision making using real-time market data.

Under normal business conditions the predominance of transactions should occur at the “trading floor limit” level. It is intended that the PacifiCorp Risk Forum or ET would be involved only in abnormal, non-standard or unusual transactions such as those that are difficult to model, those

involving large volumes or large financial commitments, or those committing PacifiCorp for long time periods. The Limit Structures are meant to account for both the need to prudently manage and control with the commercial realities of the energy markets.

This delegated authority structure defines which members of staff are authorized to make trading decisions and are therefore able to commit the business unit to commercial obligations.

7.1. Limit Principles

Trading shall operate within clearly defined markets and permitted activities. Transactions may include physical positions, financial instruments, contractual obligations, regulatory requirements and other obligations. Front Office is permitted to engage in those activities specified in the Approved Instruments List as contained in the business unit procedures. Additions or modifications to this Approved Instruments List may be proposed by the MD-T&O or the VP-RM and presented for approval to the PacifiCorp Risk Forum. The VP-RM is responsible for updating this list and communicating any changes to all affected parties.

Risk-based activities must be conducted pursuant to this PacifiCorp Policy and within the limits and processes established by (a) the Group Board, (b) the PacifiCorp Risk Forum within Group Board approvals, and (c) this PacifiCorp Policy and PacifiCorp FO Procedures & Practices.

Any business unit violating any limit must immediately notify the MDMO and the VP-RM. The PacifiCorp Risk Forum shall be promptly notified by the VP-RM of the limit violation and any action or proposed action to address the violation.

Trading must be within the risk capital limits approved by the Group Board and the limits approved by the PacifiCorp Risk Forum within Group Board approvals. Limits are expressed in terms of specific measurable criteria. Risk Management advises the PacifiCorp Risk Forum and the PacifiCorp Risk Forum reviews and recommends to the ET, appropriate risk measurement methodology and risk limits. Such approval shall include ensuring that the assumptions utilized in the model reflect the best information available. The measurement will use confidence intervals and holding periods consistent with the defined risk tolerance and liquidity of the exposures held.

Each limit is independent, is a firm limit and is not a guideline.

The PacifiCorp Risk Forum sets and reviews sub-limits to prevent excessive concentrations of risk. These sub-limits apply to the net aggregate exposure for each business unit or for a class of transactions. These sub-limits are listed in the business unit procedures and are replicated in **Appendix B**. The PacifiCorp Risk Forum approves changes to such sub-limits. The VP-RM will communicate the changes to all affected parties.

PacifiCorp will utilize limits on the expected volatility of forward earnings as the primary tool for measuring and limiting forward exposure. Such limits shall include daily VaR calculations and shall include stress tests and scenario analysis. While limits cannot ensure earnings volatility will never exceed the approved limit(s); they are an effective measure of managing PacifiCorp's positions with respect to the risk tolerance approved by the Group Board. Earnings volatility measures (when used as limits) shall take into account both current market conditions and historical market conditions.

These methods will employ recognized methodologies. The limits and methodologies are set forth in **Appendix E** of the Group Policy and can (in total) only be revised by the Group Board.

Middle Office is responsible for implementing, and Risk Management is responsible for approving, the earnings volatility measurement methodology and measurements. The VP-RM shall oversee these processes subject to regular review by the PacifiCorp Risk Forum.

Stress and scenario testing assess the effects of extraordinary price environments and market conditions on the value of PacifiCorp's forward book. The purpose of stress and scenario testing is to (a) assess the risk of a price move not contemplated by earnings volatility methodology and (b) to estimate the impact of non-linear positions (such as options) on the volatility of forward earnings. Stress and scenario testing shall be used primarily to identify transactions that cause significant volatility and to develop volatility mitigation strategies. The portfolio may be subject to additional limits based on the results of stress and scenario testing, but these limits shall not take the place of normal risk limits.

The VP-RM shall formulate, and the PacifiCorp Risk Forum shall approve, the stress and scenario testing methodology. The PacifiCorp Risk Forum shall approve changes to the methodology. Results of the stress tests will be reported to the PacifiCorp Risk Forum and ET.

7.2. Market Risk Principles

EMRM activities must be performed within market risk limits established by Group and further allocated to specific products and markets by the PacifiCorp Risk Forum and PacifiCorp management. Limits may be defined for:

- control of position size (physical and financial);
- position concentration (percent of position transacted in a certain region, in a certain commodity, or in a certain tenor); or,
- earnings volatility (such as VaR measures defined in Group Policy, Appendix E).

In addition, other limits may be defined to control trading in instruments that are more difficult to value (such as options) or very large single transactions (through volume or capital commitment limits). The methods for measuring market risks will include both a probabilistic approach and a scenario approach. Scenarios shall include both normal and stress conditions.

No member of staff is permitted to trade outside either the level or form of their authorization. Risk Management is responsible for ensuring this delegated authority is complied with and for advising the management on the appropriateness of members of staff to receive delegated authority.

Delegated authority limits are specified in PacifiCorp FO Procedures & Practices.

7.3. Credit Limits

The Group Board establishes the Group's aggregate credit capital at risk to reflect the Group's appetite for credit exposure. Exposure to individual PacifiCorp counterparties is

managed by US Energy Credit Risk Management, employing internal credit ratings and credit management techniques such as collateral, letters of credit and guarantees. In addition, US Energy Credit Risk Management operates as part of the Group Credit Risk Management function to limit aggregate Counterparty credit exposure to limits identified in Group Policy.

PacifiCorp's practices as they relate to management of credit risk shall be consistent with the provisions of Group Policy.

7.4. Energy Management Delegated Authority

To ensure that business units engaged in energy management activities are responsive to the markets and the needs of the Group, a structure of delegated authority empowers EMRM staff to make appropriate decisions.

This delegated authority structure defines the members of staff who are authorized to make EMRM decisions that commit the Group to commercial obligations.

The ET is responsible for approving both the principles and levels of delegated authority for each Division. The ET also has the responsibility to ensure that levels of delegated authority are consistent across the Group as appropriate.

The President, PacifiCorp, is responsible for; (a) approving individual staff members into the categories of delegated authority; (b) ensuring that staff are aware of their individual authorities; and (c) ensuring there are adequate controls to identify breaches. A summary of trading authorities is provided in **Appendix B**.

Business unit, Risk Management and/or Business Control functions are responsible for ensuring compliance with this delegated authority and for advising the GERD on the appropriate staff members to receive delegated authority.

7.5. Approved Instruments

PacifiCorp maintains a list of approved trading instruments, as governed by specific terms outlined in PacifiCorp FO Procedures & Practices. No member of PacifiCorp shall execute a transaction involving any instrument not listed in the Approved Instruments List without obtaining approval via the Instrument Exception Process outlined below. New instruments may be added to the Approved Instruments List pursuant to the Instrument Exception Process. PacifiCorp's Approved Instruments List is provided in **Appendix B**.

No transaction will be executed without prior authorization from the PacifiCorp Risk Forum unless it is an approved instrument and does not cause any limit or other policy violations. Transactions executed in non-approved products without such prior authorization must be reported to Risk Management and Division Management immediately upon discovery.

A new instrument will be submitted to the PacifiCorp Risk Forum for approval. The PacifiCorp Risk Forum may give delegated authority to the Vice President – PacifiCorp Risk Management to approve new instruments that are similar in nature and exposure to an existing approved instrument.

In either case, no new instrument will be approved without the following:

- clear and precise definition;

- clear description of the pricing methodology;
- certification that pricing tools are available;
- certification that all tools and systems are available for inclusion in position, trading and risk management, settlement and finance processes;
- clear explanation and example showing how the instrument will be represented and valued in the system of record;
- a clear business case for its use; and,
- certification that the Risk Management (including Credit), Finance & Accounting and Legal functions have reviewed and approved the proposal.

7.5.1. Instrument Review

Risk Management will review, and in cooperation with the business unit, recommend new instruments to the PacifiCorp Risk Forum for addition to the Approved Instruments List. Upon request for pricing of any instrument thought to be a new instrument, the Transaction Sponsor (TD, OD or MD-T&O) will initiate the new instrument process.

PacifiCorp will not engage in transactions involving a new instrument until market infrastructure and risk measurement tools permit marking-to-market on a daily basis.

7.5.2. Instrument Exception Process

To ensure that PacifiCorp can adequately process, value and risk manage all transactions, a proposed transaction involving an instrument not on the Approved Instrument List shall require additional approvals before execution as follows: The VP-RM can temporarily approve such transactions within approved limits; at the VP-RM's discretion, the transaction may be reviewed with selected members of the PacifiCorp Risk Forum. All transactions approved in this manner shall be reported to the full PacifiCorp Risk Forum at the next scheduled meeting.

7.6. Limitations on the Selling of Options

The sale or writing of options is not permitted:

- unless the sale option is covered by a greater volume of purchased options at the same location and for the same time period or is backed by physical asset options;
- the purchased or physical options must be explicitly allocated to back such a sale and should not be required for other purposes³;
- where the impact is an increase in the price exposure of the Group; or,
- unless explicitly approved by the ET.

³ Such as to meet customers physical flexibility requirements

8. TRANSACTION VALUATION

PacifiCorp's methods, data, and valuation practices shall be fully consistent with the provisions of Group Policy as it relates to transaction valuation. PacifiCorp will maintain full documentation describing the models, forward curves and other parameters used in valuation of transactions in PacifiCorp's energy portfolio.

8.1. Approved Commodities, Related Products and Transaction Locations

The Group Board has authorized PacifiCorp's Front Office to transact in electric energy and related products, natural gas and related products, fuel oil, oil products, unleaded gas products, emissions products and "green" products, in locations and subject to limitations as identified in PacifiCorp FO Procedures & Practices. Summarized in **Appendix B**, these provisions are an important element in managing risk within Board-authorized limits. In addition, they form the basis for needed data and modeling resources for fair valuation, risk assessment and management, and physical resource management by the PacifiCorp business units.

8.2. Modelling of Products in Use

8.2.1. Analytical Documentation

Group Policy requires the Divisions to maintain documentation describing the detailed methodologies and tools used to construct the assumptions, forward curves and key parameters used in valuation models for transactions included in Division energy portfolios. These detailed documents provide all necessary information and data necessary to independently value any transaction in the Division's energy portfolio, and for use for both internal and external audit processes.

PacifiCorp has established a library for such documentation as a part of PacifiCorp's Risk Management Archive, located in the PacifiCorp network at Groups on 'PSB1'/Risk Management/AAA Risk Management Archive/PacifiCorp Valuation Documentation. (**Appendix E** provides hyperlink connections to these documents for readers accessing this PacifiCorp Policy through the PacifiCorp computer network.) Contents of this file include the following:

- Inventory: approved products in use and associated models;
- Inventory: points of delivery in use and associated forward curves;
- Inventory: forward price curves;
- Inventory: models in use;
- correlation methodology;
- daily gas volatilities methodology;
- daily implied power volatilities methodology;
- scalars methodology; and,

- hyperlink to PacifiCorp Intranet description of forward price curve methodology (<http://pdxdrmt02/fpcdocweb/>).

Documentation associated with valuation of transactions shall be reviewed by the VP-RM for accuracy of data, assumptions and consistency with Group Policy.

9. ACCOUNTING FOR ENERGY TRANSACTIONS

Group Policy and this PacifiCorp Policy as applied to all organizations are integral, not only to managing risk, but also to properly account for trading and EMRM activities. All transactions shall be properly recorded in accordance with Generally Accepted Accounting Principals (GAAP) and other applicable standards (such as FERC) to allow for accurate reports to shareholders, regulatory and taxing authorities and other interested parties.

All activities to be accounted for as hedge transactions must be consistent with this PacifiCorp Policy and the Group Accounting Policy.

10. MANAGEMENT REPORTING

PacifiCorp shall collect, maintain, and assess such information as is crucial to the control and management of risk. PacifiCorp will create reports for dissemination to the Group Board and ET which indicate the levels of risk being undertaken, the degree of compliance with policies, procedures and limits, and the financial performance of the various physical and financial transacting activities.

In addition, PacifiCorp shall produce and disseminate regular reports indicating the levels of risk being undertaken, the degree of compliance with policies, procedures and limits, and the financial performance of the various physical and financial EMRM activities.

10.1. Key Reports Required

PacifiCorp will produce and disseminate reports as identified in Group Policy, Section 10. Included among such regular reports are the following:

- position reports – provide the physical and financial exposure portfolio position and position with respect to limits of the business unit including all generation, load (retail and wholesale) and bilateral contracts;
- earnings volatility measurement reports – provides risk measurement information including VaR and Earnings at Risk information necessary for financial reporting and, as appropriate, position management (**Appendix E** of Group Policy addresses VaR calculation);
- exception and variance reports – any violation of limits and/or explanation of significant changes to the Position report, mark-to-market report or Risk Measurement reports;
- mark-to-market report – values the MtM on open positions including relevant stop-loss limit information;
- credit risk reports – defined below;
- insurance reports – provide information on current insurance markets, renewal activities

and major claim status;

- accounting reports – provides necessary MtM, and period movements in the fair value of FAS 133, IAS 39 and other designated contracts;
- fundamentals reports – provides information and updates on market fundamentals; and,
- stress and scenario reports – calculations of the value of the portfolio of extraordinary price movements that are not contemplated under normal price volatility.

These credit risk reports are required:

- Credit Exposure Report: On a daily basis, Credit issues and distributes to Risk Management and the Front Office a credit exposure report (OK to Trade Report);
- Credit Update Notice: Credit will send via e-mail a Credit Watch Notice to Middle Office, Back Office, DT, MD-T&O, traders, Contract Administration, C&T's Transmission traders and Internal Audit when the credit status of a counterparty changes. Upon notice, no new trades will be pursued with the counterparty until Credit notifies otherwise; and,
- Credit Collateral Report: on a regular basis, Credit will issue and distribute to the Middle Office, Office of the General Counsel and the Treasury a Credit Collateral Report. The purpose of this report will be to track the collateral either provided or received in connection with PacifiCorp's energy trading activities.

10.2. Information Technology

To enable the EMRM business units to support its IT infrastructure, the Information Technology (IT) Department will allocate resources to business units and will provide technical systems support personnel to business units engaged in EMRM activities. These personnel will report to IT.

IT responsibilities will be as described in Group Policy, Section 10.4.

11. COMPLIANCE AND ENFORCEMENT

No less than annually, all EMRM personnel (Risk Management; plus executive management plus directors, managers and staff engaged in EMRM activities shall agree and consent to abide by this PacifiCorp Policy and Group Policy by signing a Certification and Consent Form in the form as shown in **Appendix A**. Any breach of Policy or procedures may result in disciplinary action, up to and including termination of employment.

Compliance with this PacifiCorp Policy, the Group Policy and business unit operational procedures will be monitored by PacifiCorp compliance function(s) and PacifiCorp Risk Management. Internal Audit will conduct audits from time to time according to their defined remit within the Group.

Procedures for the reporting and treatment of non-compliance will be maintained by PacifiCorp Risk Management function and approved by the ET.

Questions concerning how to comply with, or report violations of, this PacifiCorp Policy should

be directed to the VP-RM, ScottishPower Internal Audit, or any attorney in the PacifiCorp OGC.

11.1. Legal, Regulatory, Code of Conduct

No employee shall engage in any activity in breach of applicable laws and regulations. All employees will comply with all regulatory Codes of Conduct. No employee shall engage in any fraudulent, deceptive, or manipulative business acts or practices. All employee activities shall adhere to the letter and intent of PacifiCorp's documentation governing codes of conduct and applicable procedures. Any questions shall be brought to the attention of the OGC.

11.2. Standards of Conduct

All employees must adhere to Group Policy, PacifiCorp Policy and PacifiCorp operational procedures. No employee shall engage in any activity in breach of applicable laws and regulations. All employees will comply with all applicable regulatory Codes of Conduct⁴. No employee shall engage in any fraudulent, deceptive, or manipulative business acts or practices. All employee activities shall adhere to the letter and intent of applicable procedures. Activities constituting violations of these principles and such policies include, but are not limited to, negligently, willfully, or knowingly:

- exceeding a limit;
- transacting with unauthorized counterparties;
- transacting unauthorized products;
- concealing or misrecording any transaction;
- misrepresenting material information or data to internal or external parties; and,
- transmitting prohibited information that contravenes regulatory, legal or Code of Conduct prohibitions.

Questions should be brought to the attention of Risk Management, PacifiCorp Management, OGC and the appropriate department.

11.3. Insider Trading

No employee shall trade any energy product, derivative instrument or other product for the benefit of any person or entity other than PacifiCorp or a Group company, nor trade while in possession of material non-public information in violation of regulations of the Securities and Exchange Commission or Commodity Futures Trading Commission. All questions relating to these matters must be directed to the OGC.

⁴ Code of Conduct includes, but is not limited to the Statement of Policy and Code of Conduct with respect to the relationship between PPM Energy, Inc. and PacifiCorp.

11.4. Trader to Counterparty Limitations

No trader shall act in an advisory capacity, provide derivative or other risk advice, scenario or sensitivity analyses, or recommend third party futures brokers and/or financial advisers to any counterparty.

11.5. Inducements

No employee shall offer, solicit, or accept inducements to or from employees or representatives of other institutions in violation of the "Gifts, Entertainment and Gratuities" section of the Guide to Business Conduct.

11.6. Proprietary Information

All energy transactions and all other confidential information, including voice recordings of transactions and other business conducted on recorded telephone lines, generated or acquired, are the sole property of PacifiCorp and shall not be disseminated without supervisory approval. General market observations contained in industry publications or other public sources may be conveyed without prior approval.

Traders should endeavor to conduct all transactions on recorded telephones. All enabling agreements with counterparties shall provide for telephonic recording. Verbal transactions (consummated under written master agreements) conducted on non-recorded telephones, such as cellular telephones or offsite telephones, shall be promptly followed-up with a written confirmation.

11.7. External Price Reporting

The following processes and controls should be adhered to for trade data gathering and submission to external publications:

- The reporting individual or department shall verify and submit data to publishers through a department that is independent of the Front Office (Middle or Back office).
- Data shall be submitted to the publisher electronically, but verbal submission via recorded phone line is acceptable, when otherwise unavoidable.
- A timely error review and revision process shall be in place. This process should be completed within the time frame from the data submission deadline to the index publication time.
- The group that submits data to an index publisher shall be responsible for maintaining all records for audit purposes.
- Independent (internal or external) audit will review the data submission process at least annually, verifying the proper implementation of and adherence to the data gathering and submission process that PacifiCorp has agreed to.

11.8. Off-Market Trades

Non-structured transactions (transactions on the approved transactions list) entered into at prices significantly different from then-prevailing market prices, whether to the advantage or

disadvantage of PacifiCorp, shall be reported by Middle Office to the VP-RM with an explanation of how the price was reached, and the name of the trader at the counterparty. The VP-RM will review and report to the PacifiCorp Risk Forum on the propriety of the transaction.

11.9. Vacations

Management may plan and arrange vacation schedules for critical Front, Middle and Back Office personnel to ensure regular rotation of responsibilities and the resultant internal audit effect of such rotation. Unless directed by the MD-T&O and independently reviewed by the OGC and/or Risk Management, no transactions may be executed by an employee while such employee is on vacation or holiday.

11.10. Terminations

All employees involved in EMRM activities or with access to confidential information and who are voluntarily or involuntarily terminated may be escorted off PacifiCorp premises by management and shall depart PacifiCorp premises immediately. Access by such person to PacifiCorp systems and data shall immediately be terminated. Any exceptions to this practice must be documented by the terminated employee's supervisor and reported to PacifiCorp executive management and the VP-RM no later than one day following notice of voluntary termination by the employee or one day following notice to the employee of involuntary termination.

11.11. Sarbanes-Oxley

The Sarbanes-Oxley Act was passed into law by Congress in 2002 to introduce regulations that "improve the accuracy and reliability of corporate disclosures made pursuant to the securities laws". Group and PacifiCorp shall observe all provisions of the Sarbanes-Oxley Act. Any suspected violation shall be reported to the OGC.

11.12. Telephone Recording

To the fullest extent permitted by applicable federal, state and local law or regulatory order, telephone conversations of all traders (including Origination traders) on the trade floor shall be continuously recorded. Such electronic record shall be maintained by Mid-Office for no less than 180 days.

11.13. Exception Request

If PacifiCorp management wishes to seek an exception from the Group Policy for an actual or expected condition, management will follow the exception procedures for the appropriate business unit committee or other body responsible for the matter. If no body is authorized to approve the desired exception, PacifiCorp management shall prepare a written exception request to the GERD, who will prepare a recommendation for approval by the ET. The ET shall determine how long the exceptional condition will be permitted or deemed to exist. Any such exception that is expected to exist for more than 30 days or exceeds any Group Board-imposed limit shall also require the approval of the Group Board.

11.14. Reporting Non-Compliance

All suspected incidents of non-compliance with this PacifiCorp Policy or business misconduct, whether inadvertent or deliberate, are to be reported immediately to the relevant business unit's executive management and to the VP-RM. Business unit management will send a written description of the incident to the VP-RM, copying the OGC. The VP-RM, in consultation with the OGC, Credit and Audit Services departments, will determine whether a violation may have in fact occurred, and determine and implement remedial action. No employee who believes or suspects that any records, including e-mails, in their possession could be the subject of a potential investigation shall alter, delete or destroy those records. PacifiCorp executive management is responsible for ensuring that violations are reported in a timely manner and for carrying out appropriate disciplinary action. Verified incidents of non-compliance will be reported to the ET in writing. Failure by a supervisor to report an incident of non-compliance by a direct report is itself a violation of the Group Policy. Failure by any party to fully cooperate with an investigation of a violation or potential violation of the Group Policy is a violation of the Group Policy subject to disciplinary action, up to and including termination.

To the extent that the GERD or individuals within the OGC does not feel that appropriate actions have been taken to correct or limit the Group Policy violations, he or she must communicate such concerns to the ET. In cases of suspected non-compliance by a member of the ET or PacifiCorp executive management, the incident shall be reported to the OGC. A quarterly report of all PacifiCorp Policy violations shall be prepared by the ET, in accordance with guidelines developed by Audit Services, for the Audit Committee of the Group Board.

11.15. Retaliation

No employee will be discharged, demoted, suspended, harassed, discriminated against or otherwise penalized for reporting in good faith actual or potential violations of this PacifiCorp Policy, provided such employee is not otherwise engaged in the alleged activity, in which case such employee will be subject hereto. Any suspected retaliation should be reported to the OGC.

11.16. Authority


Only individuals authorized in writing by the Group Board, PacifiCorp Board, ET, or PacifiCorp President are approved to enter into transactions in the name of PacifiCorp. A list of such persons shall be provided to the OGC, and promptly updated by Risk Management. Only authorized signatories are permitted to sign counterparty contracts. No one may sign any non-standard counterparty or customer-prepared contract without prior legal review and approval.

11.17. Authorization of PacifiCorp Policy and Change Control

This PacifiCorp Policy shall be subject to annual review and approval by the PacifiCorp Risk Forum and shall be consistent with Group Policy. Changes to Division operational procedures related to EMRM activities may be made on an interim basis upon concurrence between the SVP-C&T and the VP-RM. All modifications to PacifiCorp operational procedures shall be subject to review by the PacifiCorp Risk Forum and the PacifiCorp Risk Forum shall review for approval all changes related to energy transaction and EMRM activities on a quarterly basis, at a minimum.

Risk Management shall prepare an annual report to the PacifiCorp Risk Forum and ET of all changes to any business unit procedures approved by the PacifiCorp Risk Forum. These reports will also consider the effectiveness with which this PacifiCorp Policy and the individual business unit procedures have been adopted by the respective business units.

All changes and revisions to this PacifiCorp Policy will be documented in the Document Change Log, included as **Appendix F**.



GLOSSARY

At The Money: a call (or put) option where the exercise/strike price is equal to the current price of the underlying market.

Back Office: Corporate functions that include trade settlement, record keeping, and regulatory compliance.

Bid: A motion to buy a commodity or a futures or options contract at a specified price. Opposite of offer.

C&T: Commercial & Trading

Call Option: An option that gives the holder the right but not the obligation to buy a specified quantity of an asset at a fixed specified price, on or before a specified date in the future. The seller of the option has the obligation to deliver the asset if the holder exercises the option.

Collateral: Assets used to secure contracts, which become subject to seizure on default of the counterparty who offered the collateral as security.

Company: PacifiCorp

Confidence Interval: A defined level of certainty for a statistical forecast expressed in percentage terms.

Counterparty: The other party to a transaction.

Credit Risk: The risk that a particular Counterparty will fail to meet its financial obligations in a timely manner. Credit risk is comprised of *Settlement Risk* (the risk of a counterparty failing to pay for energy and/or services which have been delivered) and *Replacement Risk* (This risk of having to replace a sale or purchase contract following default of counterparty).

Currency Risk: The risk that changes in exchange rates may reduce the value of an asset.

DCA: Director - Contract Administration

DCR: Director - Credit Risk

DDSM: Director - Demand Side Management

Derivative: A financial instrument the price for which is dependent on, or derived from, an underlying product, such as a cash market commodity, a futures contract or other financial instrument, securities, equity indices, debt instruments, or any agreed upon price index. Derivatives can be traded on regulated exchanges or over-the-counter. Futures contracts are derivatives of physical commodities, options on futures are derivatives of futures contracts. Derivatives involve the trading of rights or obligations based on the underlying product, but do not directly transfer property. They can be used to hedge risk or to exchange a floating rate of return for a fixed rate of return.

Division: (1) PacifiCorp, or (2) one of the four Divisions that together constitute ScottishPower plc, including PacifiCorp, United Kingdom, PPM Energy Inc., and Infrastructure.

DL&RF: Director - Load & Resource Forecasting

DO: Director - Origination

DPP: Director – Production Planning

DRP: Director - Resource Planning

DSM: Demand Side Management

DSP: Director – Structuring & Pricing

DT: Director - Trading

EITF: Emerging Issues Task Force

EMRM: Energy Management and Risk Management

ET: Executive Team

Exposure Valuation: The difference between the value of the open position at market prices, and the open position valued at the “worst case” scenario prices, measured over a two year period.

Fair Valuation: The valuation of physical or financial positions at current forward market prices. The term “Fair Valuation” is synonymous with “Mark-to-Market”.

Finance: The function that undertakes trade settlement and record keeping.

FO Procedures & Practices: PacifiCorp Commercial & Trading Front Office Procedures and Practices

Forward Contract: A supply contract between a buyer and a seller, in which the buyer is obligated to take delivery and the seller is obligated to provide delivery of a fixed amount of a commodity on a specified future date. This differs from a futures contract where settlement is made daily, resulting in partial payment over the life of the contract. A forward contract refers to non-exchange trading of commodities.

Front Office: The Front Office is primarily comprised of Trading and Origination teams, and other supporting organizations. The Front Office implements commercial strategy with respect to EMRM activities.

Futures Contract: A futures contract is an agreement to purchase or to sell a commodity for delivery in the future: (1) at a price that is determined at initiation of the contract; (2) which obligates each party to the contract to fulfill the contract at a specified price; (3) which is used to assume or shift price risk; and (4) which may be satisfied by delivery or offset.

GAAP: Generally Accepted Accounting Principles

GCC: Group Credit Committee

GERC: Group Energy Risk Committee

GERD: Group Energy Risk Director

GFD: Group Finance Director

Group: ScottishPower plc

Group Board: The Board of Directors of ScottishPower plc.

Group Policy: ScottishPower plc Energy Management and Risk Management Policy

Hedging: Taking a position in a futures or forwards market opposite to the position held in a cash market to minimize the risk of financial loss from an adverse price change; a purchase or sale of futures or forwards as a temporary substitute for a cash transaction that will occur later.

In the Money: A call (or put) option where the exercise/strike price is below (or above) the current price of the underlying market.

IRP: Integrated Resource Plan

IT: Information Technology

Liquidity: A market is said to be "liquid" when it has a high level of trading activity.

Mark-to-Market (MtM): The valuation of physical or financial positions at current forward market prices. The term "Mark-to-Market" is synonymous with "Fair Valuation".

Market Risk: The risk generated by market conditions, containing elements of both volume and price risk.

Market Valuation: The size of movement of the MtM measure, over a two-year period.

MDBO: Managing Director - Back Office

MDC: Managing Director - Controller

MDMO: Managing Director - Middle Office

MD-T&O: Managing Director - Trading and Origination

MFA: Manager of Fundamental Analysis

Middle Office (Mid-Office): The Middle Office is an organizational unit which is to be independent of Front Office, and responsible for development and implementation of the day-to-day operating systems and processes for the business unit's EMRM activities.

MIRP: Manager - Integrated Resource Plan

Offer: A motion to sell a commodity or a futures or options contract at a specified price.

Option: A contract which gives the holder the right, but not the obligation, to purchase or to sell the underlying futures contract at a specified price within a specified period of time in exchange for a one-time premium payment. The contract also obligates the writer, who receives the premium, to meet those obligations.

Out of the Money: A call (or put) option where the exercise/strike price is above (or below) the current price of the underlying market.

Portfolio: A collection of physical and financial assets.

Put Option: An option that gives the buyer the right but not the obligation to sell a specified quantity of an asset at a pre-defined price, on or before a specified date. The seller of the option has the obligation to buy the asset, should the holder exercise the option.

Price Index: An index, or average, which may be weighted, of selected prices, intended to be representative of the markets in general or a specific subset of prices.

Price Risk: The exposure to unfavorable movements in price, where an open position is held, (the risk of prices falling {rising} when the underlying forward position is long {short}).

RAT: Risk Assessment Team

Replacement Risk: The risk resulting from exposure to unfavorable movements in market prices in the event of having to replace a contractual position, following the default of a Counterparty.

Risk Capital: Risk capital is defined as capital that will cover acceptable potential losses resulting from market, credit or operational risks.

Risk and Control Framework (R&CF): A framework that enables the mapping of risks to business objectives and processes. Compliance with the R&CF guidelines is mandatory within the Group.

Settlement Risk: The risk of payments not being received from a Counterparty for instruments or services that have already been delivered.

SFAS: Statement on Financial Accounting Standards

Stress Testing: The process of determining how much the value of a portfolio can fall under abnormal market conditions. Stress testing consists of generating worst-case stress scenarios and revaluing a portfolio under those stress scenarios.

SVP-C&T: Senior Vice President - Commercial and Trading

Underlying Commodity (or "Underlying"): The commodity or futures contracts on which a commodity option is based, and which must be accepted or delivered if the option is exercised. Also, the cash commodity underlying a futures contract.

Trading: (1) Generic term synonymous with transacting (buying and/or selling), (2) Physical or financial transactions with the intent to open a position or close a previously opened position not created by an asset, such as a change in forecast of load or generation.

Value-at-Risk (VaR): The worst expected loss at a given confidence level over a given period of time, assuming that the portfolio remains completely static.

Volatility: The variability of a market factor (normally the price) of an asset.

VP-RM: Vice President – PacifiCorp Risk Management

Volume Risk: The risk of outturn generation output or demand being different from the contracted position.

APPENDIXES

Appendix A: Certification and Consent Form

Appendix B: PacifiCorp Strategy and Limits

Appendix C: US Credit Committee Terms of Reference

Appendix D: PacifiCorp Risk Forum Expedited Decision

Appendix E: [Hyperlink to PacifiCorp Valuation Documentation](#)

Appendix F: Document Change Log