I. Introduction

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

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

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

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

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

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

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

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

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

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

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

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

II. Proposed Effective Date

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

III. Classification of Resource Costs

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

IV. Allocation of Resource Costs and Wholesale Revenues

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

A. Seasonal Resources,

B. Regional Resources,

C. State Resources, or

D. System Resources.

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

A. Seasonal Resources

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

1. Simple-Cycle Combustion Turbines (SCCTs): All Fixed Costs associated with SCCTs will be allocated based upon the SSGCT

(Seasonal System Generation Combustion Turbine) Factor**.** All Variable Costs associated with SCCTs will be allocated based upon the SSECT (Seasonal System Energy Combustion Turbine) Factor**.**

2. Seasonal Contracts: All Costs associated with the Seasonal Contracts will be allocated based upon the SSGP (Seasonal System Generation Purchases) Factor**.**

3. Cholla IV/ APS: All Fixed Costs associated with the Cholla Unit 4 and the seasonal exchange provided for in the APS Contract will be allocated based upon the SSGCH (Seasonal System Generation Cholla) Factor**.** All Variable Costs associated with Cholla Unit 4 and the seasonal exchange provided for in the APS Contract will be allocated based upon the SSECH (Seasonal System Energy Cholla) Factor**.** Following the expiration of the APS Contract, Cholla Unit 4 will be allocated as a System Resource and no longer allocated as a Seasonal Resource.

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

B. Regional Resources

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

1. Hydro-Endowment:

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

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

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

C. State Resources

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

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

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

3. Qualifying Facilities (QF) Contracts:

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

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

D. System Resources

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

E. Load Growth

In concert with the 2004 IRP cycle, the Company and parties will analyze and quantify potential cost shifts related to faster-growing States.[2] In addition, a multi-state workgroup will track key factors including actual relative growth rates, forecast relative growth rates, costs of new Resources compared to costs of existing Resources, and other factors deemed relevant to this issue. No later than nine months after filing the 2004 IRP, the Company, in consultation with the MSP Standing Committee and other parties, will file a report with the Commissions regarding this issue. Included in this report will be a description of one or more options for a structural protection mechanism, detailed with

[2] This issue will be monitored through studies that compute the costs allocated to each State for two cases: (a) with currently projected load growth together with a least-cost, least-risk mix of Resource additions to meet that growth and (b) with the fastest-growing State growing at the average growth projected for the remaining States, again with a least-cost, least-risk mix of Resource additions.

sufficient specificity to allow timely implementation in the event that the studies show a material and sustained net harm to customers in any jurisdiction.

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

V. Refunctionalization and Allocation of Transmission Costs and Revenues

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

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

VI. Assignment of Distribution Costs

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

VII. Allocation of Administrative and General Costs

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

VIII. Allocation of Special Contracts

Revenues associated with Special Contracts will be included in State revenues and loads of Special Contract customers will be included in all Load-Based Dynamic Allocation Factors. Special Contracts may or may not include Customer Ancillary Service Contract attributes. In recognition that Special Contracts may take different forms, Appendix D provides a written description and numeric example of the regulatory treatment of Special Contracts and associated discounts.

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

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

X. Implementation of Direct Access Programs

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

1. Loads lost to Direct Access – Where the Company is required to continue to plan for the load of Direct Access Customers, such load will be included in Load-Based Dynamic Allocation Factors for all Resources.

2. Loads of customers permanently choosing Direct Access or permanently opting out of New Resources – Where the Company is no longer required to plan for the load of customers who permanently choose direct access or permanently opt out of New Resources, such loads will be included in Load-Based Dynamic Allocation Factors for all Existing Resources but will not be included in Load-Based Dynamic Allocation Factors for New Resources acquired after the election to permanently choose Direct Access or opt out of New Resources. An effective date for this process will be established at such time as customers permanently choose Direct Access or opt out, and this process will be implemented under the guidance of the MSP Standing Committee.
3. In each State with Direct Access Customers, an additional step will take place for ratemaking purposes to establish a value or cost (which could include a transfer of Freed-Up Resources between customer classes within a State) resulting from the departure of the departing load; other States do not implement the second step.

B. Freed-Up Resource Sale Approval

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

Company to distribute more than the total gain on a sale or recover less than the full amount of the total loss on a sale.

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

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

XI. Loss or Increase in Load

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

XII. Commission Regulation of Resources

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

XIII. Sustainability of Protocol

A. Issues of Interpretation

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

B. MSP Standing Committee

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

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

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

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

5. The MSP Standing Committee has the immediate assignments of: (a) developing one or more mechanisms that could be implemented in a timely manner in the event that load growth studies show a material and sustained net harm to particular States from the implementation of the IRP; and (b) reviewing Seasonal Resources criteria and allocation, including seasonal patterns of Resource operation to determine

seasonality, treatment of associated off-system sales, the value of operating reserves provided from Seasonal Resources, criteria to define seasonal Exchange Contracts and methods for allocating the costs of seasonal exchange returns.

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

C. Protocol Amendments

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

D. Interdependency among Commission Approvals

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