

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

In the Matter of the Joint Application of
PACIFICORP and PACIFICORP,
WASHINGTON, INC. for an Order Approving
(1) the Transfer of Distribution Property from
PacifiCorp to an Affiliate, PacifiCorp,
Washington, Inc.,
(2) the Transfer by PacifiCorp of Certain Utility
Property to an Affiliate, the Service Company,
and (3) the Proposed Accounting Treatment for
Regulatory Assets and Liabilities, and an Order
Granting an Exemption under RCW 80.08.047
for the Issuance or Assumption of Securities
and Encumbrance of Assets by PacifiCorp,
Washington, Inc. and/or PacifiCorp

Docket No. UE-001878

PACIFICORP
EXHIBIT TO
SUPPLEMENTAL DIRECT TESTIMONY OF
PETE J. CRAVEN

June 2001

SERVICES AGREEMENT

THIS SERVICES AGREEMENT (this "Agreement"), dated as of ___, 2001, is by and between [PacifiCorp Services Company], a _____ corporation ("Service Company"), and each of the parties that may, from time to time, sign a counterpart of the signature page hereof (each such party being referred to herein as "Company" or "Companies").

WHEREAS, Service Company has been formed as a subsidiary of PacifiCorp Holding, Inc., a Delaware corporation ("PHI"), for the purpose of providing administrative, management and other services to Scottish Power plc, a public limited liability company incorporated under the laws of Scotland ("ScottishPower"), to subsidiaries of ScottishPower and to nonaffiliates of ScottishPower;

NOW, THEREFORE, in consideration of the mutual covenants contained herein and other valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto, intending to be legally bound, hereby agree as follows:

I. **SERVICES OFFERED.** Exhibit I hereto lists and describes all of the services that are available from Service Company. Service Company hereby offers to supply those services to Company. Such services are and will be provided to the Company only at the request of Company. Service Company may amend Exhibit I from time to time to include additional services that Company may elect to receive as provided in Section V below.

II. **SERVICES SELECTED.**

A. **Initial Selection of Services.** Exhibit II lists the services Company has elected to receive from Service Company.

B. **Annual Selection of Services.** Service Company shall send a service proposal form to Company on or about February 1 of each year listing the services that will be available during the coming fiscal year. By March 1, Company shall notify Service Company of the services it elects to receive from Service Company during the following fiscal year.

III. **PERSONNEL.** Service Company will provide services by utilizing the expertise of such executives, accountants, financial advisers, technical advisers, attorneys, engineers, field personnel, geologists and other persons employed by it that have the necessary qualifications to perform the required services. Service Company, after consultation with Company, may also arrange for the services of nonaffiliated experts, consultants and attorneys in connection with the performance of any of the services supplied under this Agreement.

IV. **COMPENSATION AND ALLOCATION.**

A. **ScottishPower and Certain Subsidiaries of ScottishPower.** As and to the extent required by law, Service Company will provide services at cost if Company is ScottishPower or a subsidiary of ScottishPower other than those subsidiaries identified on

Schedule A hereto ("Excepted SP Subsidiaries"). Direct charges will be made for services where a direct allocation of cost is possible. Exhibit III hereto contains methodology for determining and allocating the costs of services performed by Service Company for Scottish Power and subsidiaries of ScottishPower (other than Excepted SP Subsidiaries).

B. **Excepted SP Subsidiaries.** Charges for services provided to Excepted SP Subsidiaries shall be based on fair market prices and determined in accordance with methodologies established at the time this Agreement is executed by Service Company and such Excepted SP Subsidiary.

C. **Nonaffiliates of ScottishPower.** Charges for services provided to a nonaffiliate of ScottishPower shall be determined on the basis of methodologies established at the time this Agreement is executed by Service Company and such nonaffiliate.

V. REVIEW, MODIFICATION AND TERMINATION.

A. **Review of Agreement.** This Agreement will be reviewed annually and on an "as needed" basis to assess the quality of the services provided and to determine the continued need for any service, with any necessary modifications made on a consistent basis for all affiliated companies. This Agreement will be reviewed every three years to determine whether its structural and quality control requirements result in the provision of services in an effective and efficient manner.

B. **Modification of Services.** Company may modify its selection of services at any time during the fiscal year by giving Service Company written notice of the additional services it wishes to receive and/or the services it no longer wishes to receive from Service Company. The requested modification in services shall take effect on the first day of the first calendar month beginning at least thirty (30) days after receipt of such notice by Service Company. Specific provisions will be made in the policies and procedures of Service Company to adjust allocations to reflect companies coming into or leaving the group and to reflect changes in elections. Any new or modified allocation methods that materially redirect costs will be adopted pursuant the 60-day letter request procedure established by the Office of Public Utility Regulation of the Securities and Exchange Commission ("SEC").

C. **Modification of Other Terms and Conditions.** Except as provided in paragraphs B and E of this Section V, no other amendment, change or modification of this Agreement shall be valid unless made in writing and signed by all parties hereto.

D. **Termination of this Agreement.** Company may terminate this Agreement as to Service Company by providing one hundred twenty (120) days advance written notice of such termination to Service Company. Service Company may terminate this Agreement as to Company by providing one hundred twenty (120) days advance written notice of such termination to Company.

E. **Regulatory Requirements.** Notwithstanding anything in this Agreement to the contrary, this Agreement is subject to termination or modification at any time to the extent

its performance may conflict with the provisions of the Public Utility Holding Company Act of 1935, as amended ("1935 Act), or with any rule, regulation or order of the SEC adopted before or after the making of this Agreement. This Agreement shall be subject to the approval of any state commission or other state regulatory body whose approval is, by the laws of said state, a legal prerequisite to the execution and delivery or the performance of this Agreement.

VI. **NOTICE.** Where written notice is required by this Agreement, said notice shall be deemed given if (a) delivered personally, (b) delivered by registered or certified mail, in all such cases with first class postage prepaid, return receipt requested, or (c) delivered by courier, at the respective addresses set forth on the signature pages hereof.

VII. **GOVERNING LAW.** This Agreement shall be governed by and construed in accordance with the laws of the state of incorporation of Service Company, without regard to its conflicts of law provisions.

VIII. **ENTIRE AGREEMENT.** This Agreement, together with its exhibits, constitutes the entire understanding and agreement of the parties with respect to its subject matter, and effective upon the execution of this Agreement by the respective parties hereto, as provided in Section XII hereof, any and all prior agreements, understandings or representations with respect to this subject matter are hereby terminated and canceled in their entirety and are of no further force or effect.

IX. **WAIVER.** No waiver by any party hereto of a breach of any provision of this Agreement shall constitute a waiver of any preceding or succeeding breach of the same or any other provision hereof.

X. **ASSIGNMENT.** This Agreement shall not be assignable.

XI. **SEVERABILITY.** If any provision or provisions of this Agreement shall be held to be invalid, illegal, or unenforceable, the validity, legality and enforceability of the remaining provisions shall in no way be affected or impaired thereby.

XII. **COUNTERPARTS; EFFECTIVENESS.** This Agreement may be signed in any number of counterparts, each of which shall be an original, with the same effect as if the signatures thereto and hereto were upon the same instrument. This Agreement shall be effective as between Service Company and any Company when such parties shall have signed counterparts hereof. The termination of this Agreement as between Service Company and a Company shall not cause the termination of this Agreement as between Service Company and any other Company.

IN WITNESS WHEREOF, the parties have caused this Agreement to be duly executed as of the dates indicated below.

SERVICE COMPANY:

[PACIFICORP SERVICES COMPANY]
(Address)

By: _____

Name: _____

Title: _____

Date: _____

COMPANY:

(NAME OF COMPANY)
(Address)

By: _____

Name: _____

Title: _____

Date: _____

SCHEDULE A

EXCEPTED SP SUBSIDIARIES

The following subsidiaries of ScottishPower, whether existing at the date of the Services Agreement or organized in the future, shall be Excepted SP Subsidiaries for purposes of the Services Agreement:

1. Scottish Power UK, plc ("SPUK") and any subsidiary of SPUK.
2. Any foreign utility company, as defined under the 1935 Act, or any foreign exempt wholesale generator ("EWG") that derives no part of its income, directly or indirectly, from the generation, transmission, or distribution of electric energy for sale within the United States.
3. Any EWG that sells electricity at market-based rates that have been approved by the Federal Energy Regulatory Commission ("FERC"), provided that the purchaser is not PacifiCorp or any public utility that is or becomes an associate company in the ScottishPower system.
4. A "qualifying facility" ("QF") within the meaning of the Public Utility Regulatory Policies Act of 1978, as amended ("PURPA") that sells electricity exclusively (a) at rates negotiated at arms' length to one or more industrial or commercial customers purchasing the electricity for their own use and not for resale, and/or (b) to an electric utility company at the purchaser's "avoided cost" as determined in accordance with PURPA regulations.
5. A domestic EWG or QF that sells electricity at rates based upon its cost of service, as approved by FERC or any state public utility commission having jurisdiction, provided that the purchaser is not PacifiCorp or any public utility that is or becomes an associate company in the ScottishPower system.
6. A subsidiary engaged in activities listed in Rule 58 under the 1935 Act or any other nonutility subsidiary that (a) is partially owned by PacifiCorp, a PacifiCorp subsidiary, SPUK or any SPUK subsidiary, provided that the ultimate purchaser of such goods or services is not PacifiCorp or any public utility that is or becomes an associate company in the ScottishPower system, (b) is engaged solely in the business of developing, owning, operating and/or providing services or goods to the nonutility subsidiaries described in clauses (2) through (5) immediately above, or (c) does not derive, directly or indirectly, any material part of its income from sources within the United States and is not a public utility company operating within the United States.

EXHIBIT I

DESCRIPTION OF SERVICES OFFERED BY SERVICE COMPANY

Administrative Departments

Service	Description
Audit	Periodically audit the accounting and other records and coordinating their examination, where applicable, with that of independent public accountants. The audit staff will report on their examination and submit recommendations, as appropriate, on improving methods of internal control and accounting procedures.
Business Development	Investigate and conduct research into issues relating to production, utilization, testing, manufacture, transmission, storage and distribution of energy. Keep current on all research developments and programs of significance affecting Company and the energy industry. Conduct research and development in promising areas and advise and assist in the solution of technical problems. Investigate acquisitions and dispositions.
Business Services Administration	Set strategy and provide financial, human resources and operational support for departments in Information Business Services. Provide centralized help desk and quality control department.
Executive and Administrative	Advise and assist Company in the formulation and execution of the general plans and policies and the solutions for major projects. Advise and assist as to operations, the preparation of filings arising out of or required by the various federal and state securities, business, public utilities and corporation laws, the selection of executive and administrative personnel, the representation of Company before regulatory bodies, proposals for capital expenditures, budgets, financing, acquisition and disposition of properties, expansion of business, rate structures, public relationships and other related matters.

Finance/Treasury/Accounting/Planning & Budgeting	Provide advice and assistance to Company in finance, treasury and accounting matters, including the development of accounting practices, procedures and controls, the maintenance of the general ledger and related subsidiary financial systems, the preparation and analysis of financial reports, treasury management and credit. Provide services related to managing all administrative activities associated with financing, including management of capital structure; cash, credit and risk management activities; investment and commercial banking relationships; oversight of retirement trust funds and general financing activities. Advise and assist Company in studying and planning in connection with infrastructure, budgets, economic forecasts, capital expenditures and special projects.
General Counsel	Provide advice and assistance with respect to legal issues, as well as, 1935 Act authorizations and compliance with matters under other federal and state laws.
Human Resources/Employee Benefits	Advise and assist Company in the formulation and administration of human resources and employee relations' policies and programs relating to labor relations, personnel administration, training, wage and salary administration and safety programs. Provide central accounting for employee benefits. Direct and administer all medical and health activities for Company. Advise and assist Company in the administration of such plans and prepare and maintain records of employee and Company accounts under the said plans, together with such statistical data and reports as are pertinent to the plans.
Information Business Services	Provide the resources for the operation of an information technology function, including the development, implementation and operation of a centralized data processing facility and the management of a telecommunications network. This function includes the central processing of computerized applications, support of individual applications and the development, implementation and processing of those computerized applications that can be best accomplished on a centralized basis.

Investor/Shareholder Services	Provide analysis of Company outlook within the financial community, enhancing its position in the energy industry; provide feedback regarding investor concerns; hold periodic analysts meetings; and provide various operating data as requested or required by investors.
Real Estate Management Services	Manage headquarters facilities. Provide right of way services, including encroachments, maintaining database of real estate contracts, managing lease/rental properties, handling purchases and sales of real property, and providing environmental remediation services.
Regulation & External Affairs	Advise and assist Company in the analysis of its rate structure in the formulation of rate policies and in the negotiation of large contracts. Advise and assist in proceedings before regulatory bodies involving the rates and operations of Company and of other competitors where such rates and operations directly or indirectly affect Company. Provide services in support of corporate strategies for managing relationships with federal, state and local governments, agencies and legislative bodies. Formulate and assist with public relations and communications programs and administration of corporate contribution and community affairs programs.
Risk Management	Advise and assist Company in its risk and control framework. Manage the purchase and administration of all property and casualty insurance including the settlement of insured claims and in providing risk prevention advice.
Shared Services	Provide Company with human resources service center, and conference and travel services. Provide centralized payroll and accounts payable processing. Provide centralized mail, imaging, record management and central cashier services.
Tax	Advise and assist Company in the preparation of federal, state and other tax returns, and generally advise Company as to any issues involving taxes, including the provision of due diligence in connection with acquisitions.

Infrastructure Departments

Service	Description
Account Management	Provide customer support for industrial and commercial customers. Assist large customers in meeting business requirements related to power quality, conservation, etc. Seek to maintain positive working relationships with major customers.
Customer Service	Provide services and systems dedicated to customer service, including billing, remittance, credit, collections, customer relations, call centers, energy conservation support and metering.
Distribution Asset Management	Manage the installed asset base of Company. Provide infrastructure planning services, including asset utilization planning, asset investment planning, and relevant engineering services. Provide information systems support for the dedicated asset estimating and planning systems.
Distribution Construction	Manage construction of Company's facilities. Manage major projects as well as routine management of routine construction – new connections, etc. Provide system mapping and other construction-related support services.
Distribution Executives	Provide executive management and strategic direction. Develop long-range operational programs and advise and assist in the coordination of such programs. Provide fiscal and operational oversight. Provide specific services involving labor relations, fiscal management and performance reporting.
Distribution Field	Provide personnel (both in-house and contract) to perform maintenance and construction distribution and transmission facilities. Provide dispatch control and outage management services. Design and manage various maintenance programs, including vegetation management. Provide specific services related to safety, tools coordination, equipment testing, and regional engineering support.

Distribution Metering	Provide personnel to perform meter reading and meter maintenance, including the installation, removal, testing and calibration of customer meters.
Marketing	Plan, formulate and implement marketing programs, as well as provide associated marketing services to improving customer satisfaction, load retention and shaping, growth of energy sales and deliveries, etc. Assist in carrying out policies and programs for the development of plant location and of industrial, commercial and wholesale markets.
Procurement Logistics & Transport	Procure materials, supplies and services necessary for all operations, with the exception of wholesale power purchases. Manage and maintain the vehicle fleet and provide all logistics and stores service for power delivery. Work closely with business unit teams, seeking the best value for Company through refined sourcing strategies, contracts and supplier agreements.

EXHIBIT II
SERVICES ELECTED BY COMPANY

	<u>YES</u>	<u>NO</u>
<u>ADMINISTRATIVE</u>		
1. Audit	_____	_____
2. Business Development	_____	_____
3. Business Services Administration	_____	_____
4. Executive and Administrative	_____	_____
5. Finance/Treasury/Accounting/Planning & Budgeting	_____	_____
6. General Counsel	_____	_____
7. Human Resources/Employee Benefits	_____	_____
8. Information Business Services	_____	_____
9. Investor/Shareholder Services	_____	_____
10. Real Estate Management Services	_____	_____
11. Regulation & External Affairs	_____	_____
12. Risk Management	_____	_____
13. Shared Services	_____	_____
14. Tax	_____	_____

YES

NO

INFRASTRUCTURE

- | | | |
|---------------------------------------|-------|-------|
| 1. Account Management | _____ | _____ |
| 2. Customer Service | _____ | _____ |
| 3. Distribution Asset Management | _____ | _____ |
| 4. Distribution Construction | _____ | _____ |
| 5. Distribution Executives | _____ | _____ |
| 6. Distribution Field | _____ | _____ |
| 7. Distribution Metering | _____ | _____ |
| 8. Distribution Executive VP | _____ | _____ |
| 9. Marketing | _____ | _____ |
| 10. Procurement Logistics & Transport | _____ | _____ |

EXHIBIT III

SERVICE CHARGES METHODOLOGY

This document sets forth the methodologies used to accumulate the costs of services performed by Service Company and to assign or allocate such costs to Companies.

Cost of Services Performed

Service Company maintains an accounting system that enables costs to be identified by cost center, account number, internal order number, and other system tracking processes. The primary inputs to the accounting system by Service Company are time records of hours worked by Service Company employees, purchasing and accounts payable transactions, and journal entries. For each Company to which this Exhibit III applies, Service Company shall charge the Companies receiving service from it under this Agreement using the following methods:

I. To the extent practicable, costs will be directly charged to the Companies.

II. The costs of rendering service by Service Company will include all costs of doing business, including a reasonable return on capital.

1. All expenditures incurred by Service Company will be recorded to cost centers. These cost centers roll up to Administrative or Infrastructure Departments. The following definitions apply:

(a) Administrative Departments are the departments that perform services for the common benefit of the Companies including but not limited to Human Resources, Accounting, Real Estate Management and IT.

(b) Infrastructure Departments are the departments that support and perform the asset maintenance and construction, customer interface and other field service activities for the Companies.

2. All Administrative and Infrastructure Departments will have cost centers that will be designated as either Direct or Group :

(a) Direct Cost Centers include those costs that are incurred for the direct benefit and convenience of one Company, and, therefore, are direct charged and not subject to allocation.

(b) Group Cost Centers are those costs that are incurred for the benefit and convenience of two or more Companies and are subject to allocation.

3. The allocation rules are set forth below:

(a) **First Tier Allocation.** Cost Centers, such as human resources, IT, payroll, employee benefits, and real estate management will allocate costs first to each other and then to all other Administrative Departments (tax, accounts payable, planning and budgeting, treasury) in order to reflect fully loaded departmental costs.

(b) **Second Tier Allocation.** After the First Tier Allocation is performed, and in accordance with services selected by the respective Companies, Administrative Departments will be allocated to all Infrastructure Direct and Group Cost Centers. Next, all Group Cost Centers will be charged to the Companies through allocation factors in accordance with Section V below.

(c) **Charges to Companies.** Fully loaded Direct Cost will be billed to the designated Company. Allocated costs will be billed in accordance with Second Tier Allocation process described above.

III. Notwithstanding the foregoing basis of determining cost allocations for billing purposes, cost allocations for certain services involving machine operations and production units will be determined on an appropriate basis established by Service Company relating to the direct use of machine equipment or production units.

IV. Monthly bills will be issued for the services rendered to Company on an actual or estimated basis. Estimates will normally be predicated on service department budgets and estimated productive hours of employees for the year. Periodically during the year, the estimated figures will be revised to reflect actual experience during and adjustments will be made in amounts billed to give effect to such revision.

V. The following factors will be applied to Group Cost Centers that render services to multiple Companies participating in such service. Note that costs may first be charged to Companies from Group Cost Centers by means of a labor activity rate in situations where it is determined that the cost of the services being provided is more accurately calculated in this manner. All costs remaining in the Group Cost Centers subsequent to activity rate charge-outs will be subject to the following allocations:

1. **Specific Department Allocation Factors.** The factors to be used when a Group Cost Center is determined to benefit all Companies participating in such service are set forth below:

Administrative:

Department/Cost Centers	Allocation Factors
Audit	Company Formula
Business Development	Company Formula
Corporate Business Services	Labor dollars, headcount
Executive and Administration	Company Formula
Finance/Treasury/Accounting/ Planning & Budgeting	Company Formula
General Counsel	Company Formula
Human Resources/Employee Benefits	Labor Dollars, headcount
Information Business Services (Includes IT, telecommunications)	# PC's, # ports, labor dollars, headcount
Investor/Shareholder Services	Company Formula
Real Estate Management: (Includes Corporate Facilities, Property Management, Right of Way, Transaction Services)	Square footage, rents, miles of T&D line, T&D plant, property sales
Regulatory & External Affairs	Company Formula
Risk Management	Company Formula
Shared Services: (Includes Payroll, Accounts Payable, Central Cash, Travel, Mail)	Labor dollars, headcount, # invoices, # customers, travel transactions or dollars, Net O&M
Tax	Company Formula

Infrastructure:

Department/Cost Centers	Allocation Factors
Account Management	# of customers
Customer Service	# of customers
Distribution Executives	Net distribution plant

Distribution Field	Net distribution plant
Distribution Construction	Net distribution plant
Distribution Asset Management	Net distribution plant
Distribution Metering	Net distribution plant
Distribution Executives & Controller	Net distribution plant
Distribution Executive VP	# of customers
Marketing/Demand Side Management	# of customers
Procurement Logistics & Transport	Net distribution plant

2. Company Formula – Alternative Allocation Factors. The following factor is to be used when “Company Formula” is referenced in Section V.A. above.

Company Group	Basis of Allocation
All Companies accepting service	Total operating expenses, except purchased power expense, fuel and wheeling expense