PacifiCorp
Utah Fiscal Year 2006 General Rate Case
Bridger Coal Mine Rebuttal

	Fiscal Year 2004 Income Statement	Fiscal Year 2004 Fuels Credit	Fiscal Year 2006 Fuels Credit	Fiscal Year 2006 Mrs. Dismukes Exhibit	
MINING REVENUE					
Coal Sales	132,408,173			Bridger Income Before Taxes	23,899,583 [b]
				Pacific Minerals, Inc Effective Tax rate	30.40%
MINING EXPENSE				Taxes	7,265,473
Total Direct Expenses	55,432,744			Bridger Net Income	16,634,110
Total Indirect Expenses	41,364,490			**Proposed Adjustment**	**16,634,110** [e]
Total Mining Expenses	96,797,233				
				Schedule M Deduction	16,634,110
Other Income	238,434			PPW Effective Tax Rate	37.95% [d]
				Effect on results	6,312,645
Net Income	35,849,374 [a]				
PacifiCorp 2/3 Share	23,899,583 [b]	23,865,557	21,816,593	Fuel Credit	22,946,754
Variance*		34,026 [b]			
		23,899,583 [b]	**21,816,593** [c]	**Fuel Credit**	**22,946,754**

Difference due to the CCS use of FY04 Bridger data rather than FY06 forecast with increased costs at Bridger including under grounding the mine.

* The variance relates to corporate expenses paid at the mine for Pacific Minerals, Inc. that are not part of the Bridger Mine Net Income.

a Attachment CCS 36.8 Page 2
b Attachment CCS 36.8 Page 1
c Attachment CCS 34.17 (b) Page 2
d Exhibit JTW-1 Page 2.1
e CCS Exhibit 3.13

PacifiCorp
Exhibit UP&L__(JKL-1R)
Docket No. 04-035-42
Witness: Jeffrey K. Larsen

PacifiCorp Environmental Remediation Company (PERCo)
Schedule of Disbursements for $225,000 Settlement Received February 2002

Beginning Balance			225,000.00
Big Fork Cleanup			
2002 Disbursements		-	
2003 Disbursements		(505.00)	
2004 Disbursements		(35,645.00)	
2005 Disbursements		(27,496.00)	
Total Big Fork Disbursements			(63,646.00)
UST Tank Compliance			
2002 Disbursements		-	
2003 Disbursements		(1,873.00)	
2004 Disbursements		(13,127.00)	
2005 Disbursements		(6,625.00)	
Total UST Tank Compliance Disbursements			(21,625.00)
Attorney Fees			
2002 Disbursements		(56,250.00)	
2003 Disbursements		-	
2004 Disbursements		-	
2005 Disbursements		-	
Total Attorney Fees			(56,250.00)
FY 2006 Balance			83,479.00
UT Allocated FY 2006 Balance	SO Factor	41.609%	34,734.78

JEFFREY K. LARSEN
Director of Revenue Requirement

One Utah Center, S
Salt Lake City, Uta
(801) 220-4907
FAX (801) 220-2798

UPL 7.2R

PACIFICORP

PACIFIC POWER • UTAH POWER

August 2, 2001

Dan Gimble, Manager, Energy Section
Committee of Consumer Services
Heber M. Wells Building
160 East 300 South
Salt Lake City, Utah 84145

Re: **Environmental Settlement Proceeds from 3rd Party Settlement – Docket No. 01-035-01**

Dear Mr. Gimble:

The Company entered into a confidential settlement agreement with a third party ("third party") regarding environmental remediation of certain former manufactured gas plant sites (the "sites"). Such agreement was provided to the Committee subject to the Protective Order in the case.

In the event that the environmental remediation costs associated with the former manufactured gas plant sites included within the settlement agreement exceeds the combination of the insurance proceeds received by PacifiCorp for those sites and the amount received from the third party as part of the settlement agreement, the Company will not attempt to obtain recovery from Utah retail ratepayers of any of those excess costs.

The Committee will withdraw its proposed adjustment regarding the environmental settlement.

Sincerely,

Jeffrey K. Larsen

PacifiCorp

Committee of Consumer Services

Sarbanes Oxley Internal Controls Labor Costs

Filed amount using Ernst & Young contractors

FERC Account	FY2004	FY05 DRI	FY2005	FY06 DRI	FY2006
920	311,296	1.038	323,138	1.035	334,446
921	27,652	1.038	28,704	1.035	29,709
923	1,306,002	1.038	1,355,682	1.035	1,403,124
Total	1,644,950		1,707,524		**1,767,279**

New FTEs and costs required to monitor and maintain internal controls

No.	Employee Name	Position	Hire Date	Salary	Benefits Load Factor	Total Compensation
1	CONFIDENTIAL	Manager, Business Controls	8/2/2004	$82,500	1.5638	$129,014
2		Business Control Manager	8/11/2004	$72,000	1.5638	$112,594
3		Manager, Business Controls	9/1/2004	$85,000	1.5638	$132,923
4		Director, Corporate Controls	9/11/2004	$132,500	1.5638	$207,204
5		Manager, Business Controls	10/11/2004	$78,500	1.5638	$122,758
6		Analyst, Business Controls, LD/SR	11/1/2004	$62,700	1.5638	$98,050
7		Consultant, Business Controls, LD/SR	11/1/2004	$78,500	1.5638	$122,758
8		Consultant, Business Controls, Career	11/11/2004	$73,200	1.5638	$114,470
9		Manager, Business Controls	11/17/2004	$74,800	1.5638	$116,972
10		Consultant, Business Controls, Career	11/22/2004	$70,000	1.5638	$109,466
11		Consultant, Business Controls, Career	12/6/2004	$80,000	1.5638	$125,104
12		Analyst, Business Controls, LD/SR	12/27/2004	$55,000	1.5638	$86,009
13		Consultant, Business Controls, Career	12/30/2004	$73,000	1.5638	$114,157
14		Analyst, Tax, LD/SR	1/1/2005	$65,498	1.5638	$102,426
15		Analyst, Business Controls, Associate	1/3/2005	$40,500	1.5638	$63,334
16		Consultant, Business Controls, Career	1/10/2005	$69,000	1.5638	$107,902
17	Open Position	Consultant - C&T	N/A	$79,625	1.5638	$124,518
18	Open Position	Consultant - IT	N/A	$79,625	1.5638	$124,518
19	Open Position	Manager, Business Controls - IT	N/A	$86,050	1.5638	$134,565
20	Open Position	Consultant - Power Delivery	N/A	$79,625	1.5638	$124,518
21	Open Position	Consultant - Mining	N/A	$79,625	1.5638	$124,518
				$1,597,248		**$2,497,777**

Ongoing SOX Labor Costs	**2,497,777**
E&Y Contractors	**1,767,279**
Costs not included in case	**730,498**

Note:
*Because of the sensitivity of this information, employee names have been omitted.

Management Fee revenue requirement reduction summary

	CCS 19.24		Revised - 12/22/04 Based on FY 2006 Budget			
	FY '06 $$$	FY '06 %	FY '06 $$$	FY '06 %	Difference	Utah Portion
FY06 Budget			23,951,308			
less below the line costs billed to SP in HR cost center 11648			393,000			
Net Mgmt Fee Budget FY 2006			23,558,308			
PacifiCorp Share	**$ 23,292,935**	**96.25%**	**$ 21,847,975**	**92.74%**	$ 1,444,960	**601,230**
Affiliates Share	**908,091**	**3.75%**	**1,710,333**	**7.26%**	$ (802,242)	
Total	$ 24,201,026	100.00%	$ 23,558,308	100.00%	$ 642,718	

Adjustment

PacifiCorp
Exhibit UP&L__(JKL-5R)
Docket No. 04-035-42
Witness: Jeffrey K. Larsen
Page 1 of 2

PacifiCorp
Management Fee Allocation
3-Factor Formulas Used
Fiscal Year 05 Ending March 31, 2005

	Actual Apr-04	Actual May-04	Actual Jun-04	Actual Jul-04	Actual Aug-04	Actual Sep-04	Actual Oct-04	Estimated Nov-04	Estimated Dec-04	Estimated Jan-05	Estimated Feb-05	Estimated Mar-05	AVG
Electric	95.39%	95.39%	95.39%	93.49%	93.49%	93.49%	93.49%	93.49%	93.49%	93.49%	93.49%	93.49%	93.97%
Non-Regulated:													
PacifiCorp Trans Inc.	0.01%	0.01%	0.01%	0.01%	0.01%	0.01%	0.01%	0.01%	0.01%	0.01%	0.01%	0.01%	0.01%
PacifiCorp Financial Services	0.65%	0.65%	0.65%	0.59%	0.59%	0.59%	0.59%	0.59%	0.59%	0.59%	0.59%	0.59%	0.61%
PacifiCorp Power Marketing	3.60%	3.60%	3.60%	5.61%	5.61%	5.61%	5.61%	5.61%	5.61%	5.61%	5.61%	5.61%	5.11%
PacifiCorp Environ. Remed. Co.	0.16%	0.16%	0.16%	0.13%	0.13%	0.13%	0.13%	0.13%	0.13%	0.13%	0.13%	0.13%	0.14%
Pacific Klamath Energy	0.19%	0.19%	0.19%	0.17%	0.17%	0.17%	0.17%	0.17%	0.17%	0.17%	0.17%	0.17%	0.18%
Subtotal Non-Regulated	4.61%	4.61%	4.61%	6.51%	6.51%	6.51%	6.51%	6.51%	6.51%	6.51%	6.51%	6.51%	6.04%
	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

Fiscal Year 06 Ending March 31, 2006

	Estimated Apr-05	Estimated May-05	Estimated Jun-05	Estimated Jul-05	Estimated Aug-05	Estimated Sep-05	Estimated Oct-05	Estimated Nov-05	Estimated Dec-05	Estimated Jan-06	Estimated Feb-06	Estimated Mar-06	AVG
Electric	93.49%	93.49%	93.49%	92.49%	92.49%	92.49%	92.49%	92.49%	92.49%	92.49%	92.49%	92.49%	92.74%
Non-Regulated:													
PacifiCorp Trans Inc.	0.01%	0.01%	0.01%	0.01%	0.01%	0.01%	0.01%	0.01%	0.01%	0.01%	0.01%	0.01%	0.01%
PacifiCorp Financial Services	0.59%	0.59%	0.59%	0.59%	0.59%	0.59%	0.59%	0.59%	0.59%	0.59%	0.59%	0.59%	0.59%
PacifiCorp Power Marketing	5.61%	5.61%	5.61%	6.61%	6.61%	6.61%	6.61%	6.61%	6.61%	6.61%	6.61%	6.61%	6.36%
PacifiCorp Environ. Remed. Co.	0.13%	0.13%	0.13%	0.13%	0.13%	0.13%	0.13%	0.13%	0.13%	0.13%	0.13%	0.13%	0.13%
Pacific Klamath Energy	0.17%	0.17%	0.17%	0.17%	0.17%	0.17%	0.17%	0.17%	0.17%	0.17%	0.17%	0.17%	0.17%
Subtotal Non-Regulated	6.51%	6.51%	6.51%	7.51%	7.51%	7.51%	7.51%	7.51%	7.51%	7.51%	7.51%	7.51%	7.26%
	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

PacifiCorp's share 92.74%

PacifiCorp
Exhibit UP&L__(JKL-5R)
Docket No. 04-035-42
Witness: Jeffrey K. Larsen
Page 2 of 2

ScottishPower related Other Income & Deductions Orders as of November 30, 2004
FERC Acct 4265000 Other Deductions - Billed to ScottishPower

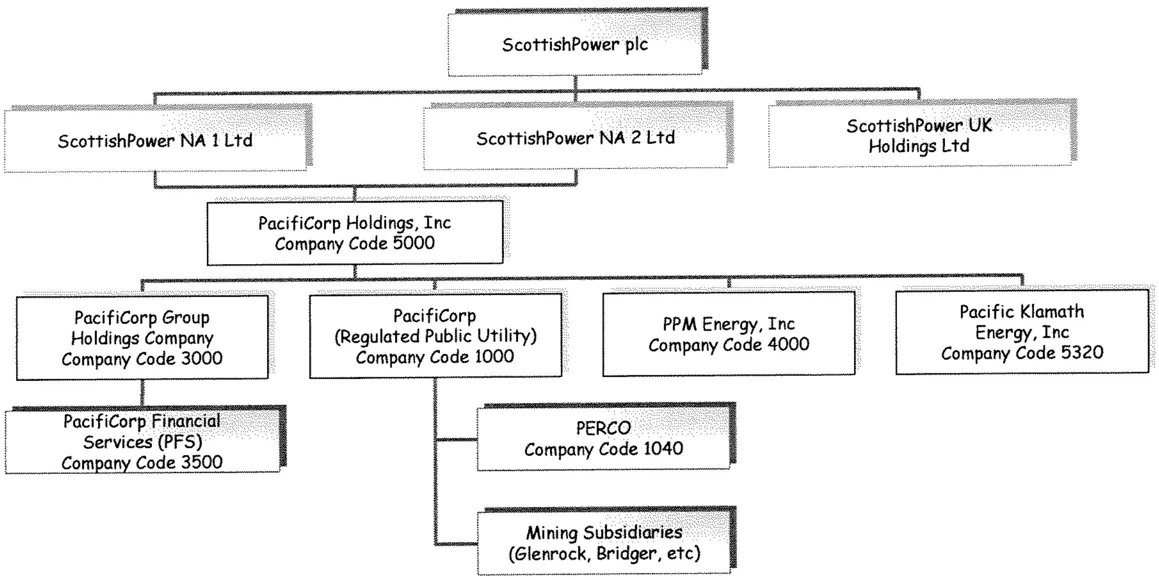
Order	Order Descrip	In Management Fee?	CCtr	CCtr Descrip	Person Responsible	YTD NOV FY 2005	Est FY 2005	Est FY 2006
215222	**Group HR Director Costs - SP**	**Yes**	**11648**	**Human Resources Management**	**Linda Wah**	**252,852.55**	**379,278.83**	**392,553.58**
217805	Group Risk Costs - UK/SP	No	13211	Group Energy/Risk	Bob Klein	224,255.28	336,382.92	348,156.32
218041	Group Audit Costs - UK/SP	No	11676	Audit Services	Stephen Cairns	120,691.17	181,036.76	187,373.04
218562	Property Risk- UK/SP	No	11628	Property Risk Management	Dawn Cartwright	56,176.06	84,264.09	87,213.33
220881	External Communications - SP Costs	No	11643	Communications Management & Admin	Rachel Sherrard	15,706.89	23,560.34	24,384.95
221477	HR Grp Org Ldr Dev - MacDonald - SP	No	11654	Human Resources-Org & Leadership Dev	Deirdre MacDonald	10,066.43	15,099.65	15,628.13
224781	Group Quantitative Costs - UK/SP	No	13357	Group Quantitative	Dan Diebold	230,825.81	346,238.72	358,357.07
Total						910,574.19	1,365,861.29	1,413,666.43

PacifiCorp
Exhibit UP&L__(JKL-6R)
Docket No. 04-035-42
Witness: Jeffrey K. Larsen
Page 1 of 1

PACIFICORP COST ALLOCATION MANUAL
AFFILIATED INTEREST TRANSACTIONS

Purpose: Ensure customers of the regulated public utility do not bear the cost of non-regulated or affiliate costs

Affiliate: Any company that directly or indirectly controls or is controlled by a common company with ownership of 5% or more and common board members or officers



Policy for affiliated transactions:

(a) Third party vendors must directly invoice the company responsible for the expense.
(b) Travel & Entertainment (T&E) credit cards (US Bank) must be used for expenses benefiting U.S. companies.
(c) Royal Bank of Scotland credit cards must be used for expenses benefiting U.K. companies.
(d) No cross charging of labor or expenses between PacifiCorp and ScottishPower plc or ScottishPower U.K., with the following exceptions:
- Labor and taxes associated with International Assignees
- Department expenses approved in the Group Corporate Cost Recharge Policy:
  - ❖ Group HR - Mike Pittman
  - ❖ Group Energy Risk - Bob Klein
  - ❖ Group Quantitative - Daniel Diebold
  - ❖ Group Quantitative - Jim Ohnemus
  - ❖ Group Quantitative - Sridhar Boovaraghavan
  - ❖ Group Quantitative - Ming Sit
  - ❖ Group External Communications - Rachel Sherrard
  - ❖ Group Org. Leadership Development - Deirdre MacDonald
  - ❖ Group Internal Audit - Stephen Cairns
  - ❖ Group Strategy - Frank Burkhartsmeyer

(e) Properly book PacifiCorp expenses in cost centers:
- "Above the Line" - costs that are ordinary, necessary, reasonable and useful in providing utility services to regulated customers. **These costs are included in revenue requirement.**
- "Below the Line" - costs that are incurred for reasons other than providing utility services to regulated customers. **These costs are not recovered in rates.** Use SAP cost element 546200, or an order that settles to a "below the line" FERC account.

Charging PPM Energy, Inc.:

- Direct charge labor using a fully loaded activity rate in "CATS" (Cross Application Time System) appropriate PPM Energy, Inc. order below.
- Code actual T&E expenses using OLEE (On Line Expense Express) to the appropriate PPM Energy, Inc. order below with company code 4000.

The following company code 4000 orders are to be used to direct charge labor and expenses relating to PPM Energy, Inc. These orders settle to PPM Energy, Inc. costs centers:

224242 – Legal
224243 – Credit Risk
224244 – Group Energy Risk
224245 – Internal Audit
224246 – Tax
224247 – Treasury
224248 – External Communications
224249 – Property Tax
224250 – Bank Reconciliations
224251 – Billing Services
224253 – Desktop Support
224254 – Property Risk
224255 – External Reporting
224256 – Environmental Policy
224257 – Group Quantitative

Charging other non-regulated U.S. affiliates:

- Direct charge labor using a fully loaded activity rate in "CATS" to the appropriate affiliate's cost center.
- Code actual T&E expenses using OLEE to the appropriate affiliate's cost center and company code.

The following company codes and cost centers are to be used to direct charge labor and expenses relating to other non-regulated U.S. affiliates:

Affiliate	Company Code	Cost Centers
PacifiCorp Environ. Remediation Co. (PERCo)	1040	10116, 10117, 10118
PacifiCorp Group Holdings Co. (PGHC)	3000	10180, 10185, 13225
PacifiCorp Financial Services (PFS)	3500	10181, 10182
PacifiCorp Holdings, Inc. (PHI)	5000	13172
Pacific Klamath Energy, Inc. (PKE)	5320	10165

For the specific cost center and/or additional affiliated U.S. company codes, contact Corporate Accounting at 503-813-5127.

Charging ScottishPower U.K.:

- International Assignees on long-term assignment (longer than 6 months) in the U.K.
  Direct charge labor using a fully loaded activity rate in "CATS" to order 305960. Monthly, charges to this order are billed to and reimbursed by ScottishPower U.K.
- Departments approved in the Group Corporate Cost Recharge Policy
  - Direct charge labor using a fully loaded activity rate in "CATS" to the appropriate order below
  - Code actual expenses to the appropriate order below

The following orders are to be used to book labor and department expenses relating to ScottishPower U.K. (only those departments approved in the Group Corporate Cost Recharge Policy – see item d above). Monthly, charges to these orders are billed to and reimbursed by ScottishPower U.K.:

215222 – Group HR
217805 – Group Energy Risk
218041 – Group Internal Audit
220881 – Group External Communications
221477 – Group Org. Leadership Development
224781 – Group Quantitative
226426 – Group Strategy

Management Fee:

The following PacifiCorp cost centers are included in the PacifiCorp Management Fee, which allocates costs to PPM Energy, Inc., Pacific Klamath Energy, PacifiCorp Financial Services, PacifiCorp Environmental Remediation Company, and PacifiCorp Trans. based on the three factor ~~form~~ formula percentages (Operating Expenses, Employees, and Assets):

10068 - Internal Communications
10070 - HR Legal
11622 - Controllers Administration
11631 - External Reporting
11638 - Investor Relations
11648 - Human Resources Management
11651 - Human Resources EEO
11653 - Human Resources Staffing/Employment
11655 - Human Resources Employee Benefits
11656 - Human Resources Compensation
11657 - Government Affairs Management
12303 - Government Affairs State Agendas
12637 - Open Learning Center
13026 - Chief Financial Officer
13149 - Controller's Administration 2
13194 - Business Planning & Strategy Analysis
13369 - Tax Department (Group Wide)

CBS Assessments:

PacifiCorp utilizes a shared services model for delivering Information Technology, Real Estate, Accounts Payable, Payroll, and other services to PacifiCorp and affiliated companies. The CBS Assessment allocates costs to those affiliated companies that utilize the service based on the company's usage of the service. The chart below lists the service and the allocation methodology:

Service	Allocation Method
PC Ownership, Maintenance, Helpdesk, LAN	# of PC's
Network Access	# of PC's
Basic Telephony Services	# of FTE's
Long Distance Telephone Service, HQ Bldg's	# of HQ FTE's
Infrastructure Services	# of PC's
Facilities Space	Square Feet
Mail Service	# of HQ FTE's
Record Management Service	Records Storage Analysis
OLEE / Travel Administration	Expense Report Analysis
Payroll – Active	# of Employees
Accounts Payable	Invoice Analysis
HR Transaction Service	# of Employees
CCO – Accts Receivable Service	CCO Analysis
Physical & IT Security	# of FTE's
SAP Applications	# of Employees
Other Common Business Applications	# of Employees
EDW, Web	# of PC's

To open and /or close an order for affiliated costs, or questions regarding affiliate transactions, please contact CBS Cost Recovery Accounting at 503-813-5639.

OLENE S. WALKER
Governor

GAYLE F. McKEACHNIE
Lieutenant Governor

State of Utah
Department of
Commerce
KLARE BACHMAN
Executive Director
JASON PERRY
Deputy Director
**Division of
Public Utilities**
IRENE REES
Director

MEMORANDUM

TO: Public Service Commission

FROM: Division of Public Utilities
Irene Rees, Director
Energy Section
Judith Johnson, Manager
Ron Burrup, Technical Consultant
Mary Cleveland, Regulatory Analyst

DATE: December 2, 2003

RE: In the Matter of Affiliated Interest Cost Allocation Compliance Filing of PacifiCorp, Docket 03-035-26.

ISSUE:

PacifiCorp has made a filing in Docket 03-035-26 indicating that the United States Securities and Exchange Commission ("SEC") authorizing PacifiCorp and ScottishPower UK plc ("SPUK") and its subsidiaries to bill PacifiCorp for corporate service costs that were incurred on behalf of PacifiCorp (SEC Release No. 35-27290, dated December 6, 2000). Corporate service costs include costs of executive management and corporate oversight provided to all ScottishPower plc divisions by SPUK and its subsidiaries ("Group Corporate Costs").

On October 1, 2003, PacifiCorp entered into a Service Contract with ScottishPower and filed, pursuant to the Utah Public Service Commission ("Commission") directives in the ScottishPower/PacifiCorp Merger Order, Docket No. 98-2035-04, ("Merger Order"), an affiliated interest cost allocation compliance filing addressing the cross charging of Group Corporate Costs between PacifiCorp and ScottishPower plc and the appropriate cost allocation methodology applicable to such transactions. The Company's filing specifically asks the Commission to accept this submission as the merged companies' compliance with the affiliated interest directives in the Merger Order, but not address the issue of the proper ratemaking treatment of the allocated and directly assigned affiliated costs until the Company's next rate case filing.

The Company estimates the projected annual cross charge for Group Corporate Costs allocated from SPUK to PacifiCorp, based on fiscal year 2004 data, to be approximately $24 million, and the annual cross charge for Group Corporate Costs allocated from PacifiCorp to SPUK to be under $2 million, resulting in a net increase in costs to PacifiCorp of over $22 million. The $22 million would be in addition to the direct charges currently billed to PacifiCorp for the international assignees.

RECOMMENDATION:

The Division recommends the Commission acknowledge receipt of the Service Contract between PacifiCorp and ScottishPower and establish a proceeding under the current docket to establish the appropriate cost allocation methodology applicable to such transactions. Until a Commission approved cost allocation methodology has been establish, PacifiCorp should remain at risk for any changes that may result to its proposed methodology, or any other methodology, that may be used to allocate Group Corporate Costs in the interim. Appropriate ratemaking treatment of the allocated Group Corporate Costs, as well as directly charged affiliated costs should be addressed in the Company's next rate case filing.

DISCUSSION:

<u>Merger Order</u>:

On June 18, 1999, ScottishPower and PacifiCorp (as required by the Merger Stipulation entered into among PacifiCorp, ScottishPower plc, the Division of Public Utilities ("DPU") and the Committee of Consumer Services ("CCS") in Docket No. 98-2035-04) filed a proposed cost allocation methodology for the allocation of corporate and affiliated investments, expenses and overheads. This filing was subsequently withdrawn.

Prior to September 2003, the date of the Service Contract between PacifiCorp and ScottishPower, no corporate and affiliated investments, expenses or overheads have been allocated between ScottishPower and PacifiCorp. Only the direct costs of the international assignees have been charged to each other.

Term 2 of the Stipulation governs any proposed cost allocation methodology submitted to the Commission for approval. Specifically, the proposed methodology must comply with the following principles:

(a) For services rendered to PacifiCorp or each cost category subject to allocation to PacifiCorp by ScottishPower or any of its affiliates, ScottishPower must be able to demonstrate that such service or cost category is necessary to PacifiCorp for the performance of its regulated operations, is not duplicative of services already being performed within PacifiCorp, and is reasonable and prudent.

(b) Cost allocations to PacifiCorp and its subsidiaries shall be based on generally accepted accounting standards, that is, in general, direct costs shall be charged to specific subsidiaries whenever possible and shared or indirect costs shall be allocated based upon the primary cost-driving factors.

(c) ScottishPower shall have in place time reporting systems adequate to support the allocation of costs of executives and other relevant personnel to PacifiCorp.

(d) An audit trail shall be maintained such that all costs subject to allocation can be specifically identified, particularly with respect to their origin. In addition the audit trail must be adequately supported. Failure to adequately support any allocated cost may result in denial of its recovery in rates.

(e) Costs which would have been denied recovery in rates had they been incurred by PacifiCorp regulated operations will likewise be denied recovery whether they are allocated directly or indirectly through subsidiaries in the ScottishPower group.

(f) Any corporate cost allocation methodology used for rate setting in Utah, and subsequent changes thereto, must be approved by the Utah Commission.

Additionally, the Stipulation clearly states that ScottishPower assumes the risk of whatever allocation methodologies or decisions the Commission may adopt. ScottishPower also assumes the risk of the Commission approval or adoption of a corporate cost allocation methodology, which differs from a methodology adopted by U.K. regulatory agencies.

Term 2 of the Stipulation also provides that the DPU will use its reasonable best efforts to reach agreement with the other state regulators as to the recommended corporate cost allocation methodology. However, in the event the state regulators are unable to reach agreement or the DPU concludes that the methodology supported by any of the other U.S. regulatory states would cause actual or perceived financial harm or inequity (on the basis of projections at that time) to the ratepayers in Utah, the DPU may support or recommend such allocation methodology to the Commission as it determines to be appropriate.

Additional commitments and conditions pertaining to corporate cost allocations are incorporated into Term 1 of the Stipulation and included in Witness Alan Richardson's Supplemental Testimony, Exhibit AVR-1. Specifically,

(a) To determine the reasonableness of allocation factors used by ScottishPower to assign costs to PacifiCorp and amounts subject to allocation or direct charges, the Commission or its agents may audit the records of ScottishPower which are the bases for charges to PacifiCorp. ScottishPower will cooperate fully with such Commission audits.

(b) ScottishPower and PacifiCorp will provide the Commission access to all books of account, as well as all documents, data and records of their affiliated interest, which pertain to any transactions between PacifiCorp and its affiliated interests.

(c) ScottishPower and PacifiCorp agree to comply with all existing Commission statutes and regulations regarding affiliated interest transactions, including timely filing of applications and reports.

(d) ScottishPower will not subsidize its activities by allocating to or directly charging PacifiCorp expenses not authorized by the Commission to be allocated or directly charged.

(e) Neither ScottishPower nor PacifiCorp will assert in any future Commission proceeding that the provisions of the Public Utility Holding Company Act of 1935 preempt the Commission's jurisdiction over affiliated interest transactions.

The Company has requested the Commission to accept this filing as the merged companies' compliance with the affiliated interest directives in the Merger Order. The Division does not believe that it is appropriate to accept the Company's filing without a thorough investigation into the development of the allocation factors, cost categories, supporting documentation, etc.

Proposal:

Allocation and assignment of Group Corporate Costs is governed by the Service Contract. Costs that are directly attributable to entities within the ScottishPower group are directly assigned. Certain Group Corporate Costs are allocated to affiliates based on their contribution to the cost. For example, employee related costs are based on the number of employees in each affiliate. Group Corporate Costs that are directly assigned or attributed are allocated based on a four-factor formula. The four-factor formula is based on equally weighted percentages of the following characteristics: (1) turnover, or gross retail sales; (2) operating profit; (3) net assets; and, (4) number of employees. The Company maintains the four-factor formula achieves an allocation that balances the cost sharing between companies with varying structures, reasonably balancing corporate cost sharing among each of the affiliates. The proposed four-factor formula is a change from the three-factor formula previously used to allocate PacifiCorp's corporate costs among its affiliates and requires Commission approval.

Group Corporate Costs are categorized into six categories, Corporate Secretarial, Corporate Communications, Group Strategy, Group Legal, Human Resources and Group Finance. Within each of these categories are various budget center codes proposed for allocation:

Corporate Secretarial includes the costs of executive directors, corporate secretary, Company Secretary/Security, Atlantic Quay office, London office, and other properties. Corporate Communications includes corporate affairs, investor relations, publications, media, internal communications, and e communications. Group Strategy includes environmental and strategic planning. Group Legal includes costs of the legal department. Human Resources includes the ScottishPower Learning Business, safety, HR management, HR employee relations, HR management development, HR health and safety director, compensation and benefits, international assignees, and HR stewardship. Group Finance includes external reporting, performance management and control, insurance, energy risk, group treasury, group tax, internal audit, credit risk.

Other costs, which are not directly related to one of the above six categories are also proposed for allocation. These include, corporate IT business services, Long Term Incentive Plan (LTIP), Unapproved Unfunded Retirement Benefit Scheme (UURBS) and unbudgeted project costs.

The justification for allocating each of the above cost categories to PacifiCorp, the allocation method for each cost category, the total cost for each cost category and the amount allocated to PacifiCorp based on the FY 04 budget is contained in the Company's filing. Each of these cost categories will need to be examined to determine if it is necessary to PacifiCorp for the performance of its regulated operations, is not duplicative of services already being performed within PacifiCorp, and is reasonable and prudent.

Conclusion:

The Division recommends the Commission only acknowledge receipt of the Service Agreement between PacifiCorp and ScottishPower and establish a proceeding within this docket to examine the proposed allocation methodology. The Merger Order specifically outlines the principles by which any proposed cost allocation methodology for the allocation of corporate and affiliated investments, expenses and overheads, must comply. Thus, acceptance of this filing as being in compliance with the Merger Order would appear to the Division to constitute approval of the services and cost categories included therein as being necessary to the performance of regulated operations, reasonable and prudent. It would also seem to presume that the proposed methodology complied with all other principles set forth in the Merger Order. Therefore, the Division recommends the Commission only acknowledge receipt of the Service Agreement between PacifiCorp and ScottishPower and establish a proceeding within this docket to examine the proposed allocation methodology.

cc: John W. Stewart, PacifiCorp
Klare Bachman, Department of Commerce
Committee of Consumer Services

ORDER NO. 03-726

ENTERED DEC 12 2003

BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UI 221

In the Matter of	)	
	)	ORDER
PACIFICORP	)	
	)	
Application for Approval of a Cross Charge	)	
Contract with SCOTTISHPOWER UK PLC	)	
Governing Affiliated Interest Cost Allocation.	)	

DISPOSITION: APPLICATION APPROVED WITH CONDITIONS

On October 1, 2003, PacifiCorp filed an application with the Public Utility Commission of Oregon (Commission) pursuant to ORS 757.490, ORS 757.495 and OAR 860-027-0040, requesting approval to enter into a service contract (Agreement) with ScottishPower UK plc (SPUK), an affiliated interest. As part of the Agreement, SPUK would provide necessary corporate services to PacifiCorp, including legal, government and corporate affairs, tax, financial, risk management, human resources, and environmental. Estimated annual payment by PacifiCorp to SPUK for these services is approximately $24,000,000. The Agreement is in effect for one year and automatically extends for successive periods of one year. A description of the filing and its procedural history is contained in the Staff Report, attached as Appendix A, and incorporated by reference.

Based on a review of the application and the Commission's records, the Commission finds that the application satisfies applicable statutes and administrative rules. At its Public Meeting on December 4, 2003, the Commission adopted Staff's recommendation. This written order memorializes the Commission's formal decision made at the December 4 Public Meeting.

OPINION

Jurisdiction

ORS 757.005 defines a "public utility" and the Company is a public utility subject to the Commission's jurisdiction.

Affiliation

An affiliated interest relationship exists under ORS 757.015.

Applicable Law

ORS 757.495 requires public utilities to seek approval of contracts with affiliated interests within 90 days after execution of the contract.

ORS 757.495(3) requires the Commission to approve the contract if the Commission finds that the contract is fair and reasonable and not contrary to the public interest. However, the Commission need not determine the reasonableness of all the financial aspects of the contract for ratemaking purposes. The Commission may reserve that issue for a subsequent proceeding.

CONCLUSIONS

1. The Company is a public utility subject to the jurisdiction of the Commission.

2. An affiliated interest relationship exists.

3. The agreement is fair, reasonable, and not contrary to the public interest.

4. The application should be approved, with certain conditions.

ORDER

IT IS ORDERED that the application of PacifiCorp to enter into an affiliated interest transaction with ScottishPower UK plc, is approved, subject to certain conditions, as further stated in Appendix A.

Made, entered, and effective ________________________.

BY THE COMMISSION:

____
Becky L. Beier
Commission Secretary

A party may request rehearing or reconsideration of this order pursuant to ORS 756.561. A party may appeal this order to a court pursuant to ORS 756.580.

ITEM NO. CA1

PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: December 4, 2003

REGULAR ____ **CONSENT** _X_ **EFFECTIVE DATE** ________________

DATE: November 18, 2003

TO: Lee Sparling through Marc Hellman and Rebecca Hathhorn

FROM: Michael Dougherty

SUBJECT: PACIFIC POWER & LIGHT: (Docket No. UI 221) Application for Approval of a Cross Charge Contract with ScottishPower UK plc Governing Affiliated Interest Cost Allocations.

STAFF RECOMMENDATION:

The Commission should approve Pacific Power & Light's (PacifiCorp) application to enter into a cross charge contact governing affiliated interest cost allocations with ScottishPower UK plc (SPUK), an affiliated interest, subject to the following conditions:

1. PacifiCorp shall provide the Commission access to all books of account, as well as documents, data, and records of PacifiCorp and SPUK's affiliated interests that pertain to this transaction.

2. PacifiCorp shall maintain a detail line item listing of all charges that are included in the allocated costs and be able to provide supporting documentation including, but not limited to, invoices, payroll records and journal record entries when requested by Staff.

3. PacifiCorp shall continue to comply with merger Condition No. 12(f) of Commission Order No. 99-616 (UM 918), dated October 6, 1999, which states, "Through December 31, 2004, ScottishPower/PacifiCorp agree that corporate costs allocated to PacifiCorp (in U.S. dollars) will not be greater than 1999 costs for comparable PacifiCorp functions escalated for inflation using the GDP-PI."

4. The Commission reserves the right to review, for reasonableness, all financial aspects of this transaction in any rate proceeding or alternative form of regulation.

5. PacifiCorp shall notify the Commission in advance of any substantive changes to the contract, including any material change in price. Any such change shall be

submitted in an application for a supplemental order (or other appropriate format) in this docket.

DISCUSSION:

PacifiCorp filed this application on October 1, 2003, pursuant to ORS 757.490, ORS 757.495 and OAR 860-027-0040. PacifiCorp requests authorization from the Commission to enter into a cross charge contract (Agreement) that relates to affiliated interest cost allocations between PacifiCorp and SPUK.

As part of the Agreement, SPUK would provide necessary corporate services including legal, government and corporate affairs, tax, financial, risk management, human resources, environmental, and other services to PacifiCorp. Estimated annual payment by PacifiCorp to SPUK for these services is approximately $24 million for PacifiCorp's 2004 fiscal year. The Agreement is in effect for one year and automatically extends for successive periods of one year.

PacifiCorp and SPUK are both wholly owned subsidiaries of ScottishPower plc and therefore, are affiliated interests as defined in ORS 757.015.

Issues
Staff investigated the following issues:

1. Scope and Terms of the Agreement
2. Public Interest Compliance
3. Records Availability, Audit Provisions and Reporting Requirements

Scope and Terms of the Agreement – The Agreement describes the various corporate services that SPUK will provide to PacifiCorp, and establishes a process for direct charging of external costs, directly allocating costs and apportioning costs to PacifiCorp and other SPUK affiliates.

A competitive procurement process was not utilized for the Agreement, as SPUK has been providing, although not charging[1], PacifiCorp for these services since the PacifiCorp / ScottishPower merger in 1999. Additionally, PacifiCorp stated, and Staff agrees, that an outside entity should not be entrusted with executive management and oversight responsibilities. PacifiCorp estimates that it will pay SPUK approximately $24 million in fiscal year 2004.

APPENDIX A
PAGE 2 OF 5

[1] PacifiCorp represented that for the last four years, the UK Divisions of ScottishPower have borne the full cost of SPUK Group Corporate functions and PacifiCorp has received services from SPUK without any cost allocations.

Per the Agreement, direct charging for services will take place whenever possible. When direct charging is not appropriate, costs would be examined for direct allocation. When costs are not subject to either direct charging or direct allocation, costs will be apportioned using a four-factor formula. The four-factor formula is developed using equally weighted percentages of (1) gross retail sales, (2) operating profit, (3) net assets and (4) number of employees.

The cost categories subject to allocation are limited to common corporate functions such as executive management and corporate oversight including corporate secretarial, corporate communications, group strategy, group legal, group human resources, and group finance.

As part of the Agreement, PacifiCorp would also provide services to SPUK including human resource management, communications, information technology support services, and energy risk management. The estimated annual cross charges to SPUK by PacifiCorp are estimated to be under $2 million annually. Based upon my analysis of the Agreement, there appears to be no unusual or restrictive terms that will harm customers.

Public Interest Compliance – Based on the four-factor allocation, PacifiCorp will pay SPUK approximately 49.8 percent of the Group Corporate Costs that are not directly assigned. As a result, PacifiCorp will pay approximately 30 percent of the total group Corporate Costs ($82 million). Staff compared the four-factor formula that is approved by ScottishPower's United Kingdom (UK) Regulator with the three-factor formula that is standard in the United States (US). The US standard does not use the profitability metric. As a result, PacifiCorp, depending on profitability, could pay more or less in allocation charges in any given year, than if a three-factor formula was utilized. However, since the four-factor allocation is being used for all UK and US operations under the Agreement, Staff recommends that the four-factor formula be allowed.

To ensure that adoption of the four-factor formula does not result in harm to customers, PacifiCorp will continue to comply with merger Condition No. 12(f) of Commission Order No. 99-616 (UM 918), dated October 6, 1999, which states, "Through December 31, 2004, ScottishPower/PacifiCorp agree that corporate costs allocated to PacifiCorp (in U.S. dollars) will not be greater than 1999 costs for comparable PacifiCorp functions escalated for inflation using the GDP-PI."

The $24 million cost to the contract is in addition to the approximately $17 million in annual payments that PacifiCorp pays to support the costs of International Assignees working in the US for PacifiCorp. Staff examined these costs for International Assignees during PacifiCorp's latest rate case, UE 147.

Specific controls are in place to ensure the Agreement is not contrary to the public interest. These controls include:

1. *Condition No. 12 of Commission Order No. 99-616 (UM 918)*
   This merger condition limits allocations to common corporate functions and requires ScottishPower to demonstrate a basis for recovery of costs; requires an audit trail to ensure all costs subject to allocation can be specifically identified and adequately supported by appropriate documentation; and requires that corporate costs allocated to PacifiCorp, through December 31, 2004, will not be greater than 1999 costs for comparable PacifiCorp functions escalated for inflation using the GDP-PI.

2. *Auditing and Internal Controls*
   Both SPUK and PacifiCorp have implemented specified internal controls to ensure compliance with the corporate cross charge policy including validation of cross charges before payment is made, quarterly audits of financial records by an external auditor and periodic reviews by PacifiCorp's internal audit department.

3. *Specific PacifiCorp Regulatory Requirements*
   The Agreement specifically addresses regulatory requirements concerning affiliated interest transactions and recognizes that although charges will be at cost, PacifiCorp will have to demonstrate and reconcile the lower of cost or market for charges from SPUK. SPUK will also provide PacifiCorp with a detail line item listing of all charges that are included in the costs that are allocated.

   Per the Agreement, full supporting documentation will be on file at SPUK and will be available upon request. This supporting documentation includes invoices, payroll records and journal record entries. As part of the review, PacifiCorp agreed that they should not be cross-charged for the HR Stewardship program[2].

   PacifiCorp will also ensure that the cost of time, travel and other group corporate responsibilities performed by PacifiCorp personnel for SPUK are recorded in a non-utility account.

There is no profit element incorporated into the cross charge policy. Because there is no profit element, PacifiCorp represents that corporate costs, directly assigned or allocated to PacifiCorp

[2] The HR Stewardship program is an ongoing development program for UK personnel.

are below market costs. PacifiCorp is required to comply with the Commission's Transfer Pricing Policy stated in Oregon Administrative Rule (OAR) 860-027-0048, *Cost Allocations by an Energy Utility*, and only pay SPUK, the lower of cost or market for services provided. As a result, there would not be any cross-subsidization of SPUK operations by PacifiCorp's regulated operations.

PacifiCorp also provided Staff with a list showing transition plan savings relative to specific corporate initiatives that resulted from the merger. These savings represent both PacifiCorp productivity benefits and economies of scope that resulted from the movement of corporate services to SPUK.

<u>Records Availability, Audit Provisions and Reporting Requirements</u> - The proposed ordering conditions Nos. 1 and 2 provide the necessary records access to PacifiCorp's relevant books and records.

Based on review of the application, Staff concludes the following:

1. Customers are not harmed by this transaction because PacifiCorp has met the requirements of the Commission's transfer pricing policy for affiliate transactions and is required to comply with the merger condition that prevents corporate costs from exceeding 1999 costs adjusted for the GDP-PI;
2. The Commission will have the necessary records access to PacifiCorp's books and records; and
3. The application involves an affiliated interest transaction that is fair and reasonable and not contrary to the public interest, with the inclusion of the proposed ordering conditions.

Both PacifiCorp and the Industrial Consumers of Northwest Utilities have reviewed and agree with Staff's recommended conditions.

PROPOSED COMMISSION MOTION:

PacifiCorp's UI 221 application to enter into an affiliated transaction with Scottish Power UK plc be approved, subject to the five recommended conditions.

PacifiCorp
Exhibit UP&L___(JKL-10R)
Docket No. 04-035-042
Witness: Jeffrey K. Larsen
Page 1 of 1

- BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

In the Matter of Affiliated Interest Cost Allocation Compliance Filing of PacifiCorp	)))	DOCKET NO. 03-035-26 PROCEDURAL ORDER

ISSUED: December 18, 2003

By the Commission:

On October 1, 2003, PacifiCorp submitted an Affiliated Interest Cost Allocation Compliance filing. PacifiCorp asked the Commission to accept this submission as complying with the affiliated interest cost allocation directives in the Scottish Power Merger Order, Docket No. 98-2035-04, and to reserve consideration of the proper ratemaking treatment of allocated affiliate cost issues to the Company's next rate case filing. On December 3, 2003 the Division of Public Utilities (Division) filed a responsive memorandum. The Division indicated concern that acceptance of the filing would constitute Commission approval of the proposal and therefore recommended only acknowledgement. The Division recommended further examination of the proposed allocation methodology within this docket.

ORDER

NOW, THEREFORE, IT IS HEREBY ORDERED, that:

1. Receipt of the compliance filing is acknowledged.

2. The Division further examine the affiliated interest cost allocation filing.

3. The Division, upon completion of its examination of the compliance filing, shall file further recommendations with the Commission.

Dated at Salt Lake City, Utah, this 18th day of December, 2003.

/s/ Ric Campbell, Chairman

/s/ Constance B. White, Commissioner

/s/ Ted Boyer, Commissioner

Attest:

/s/ Julie Orchard
Commission Secretary

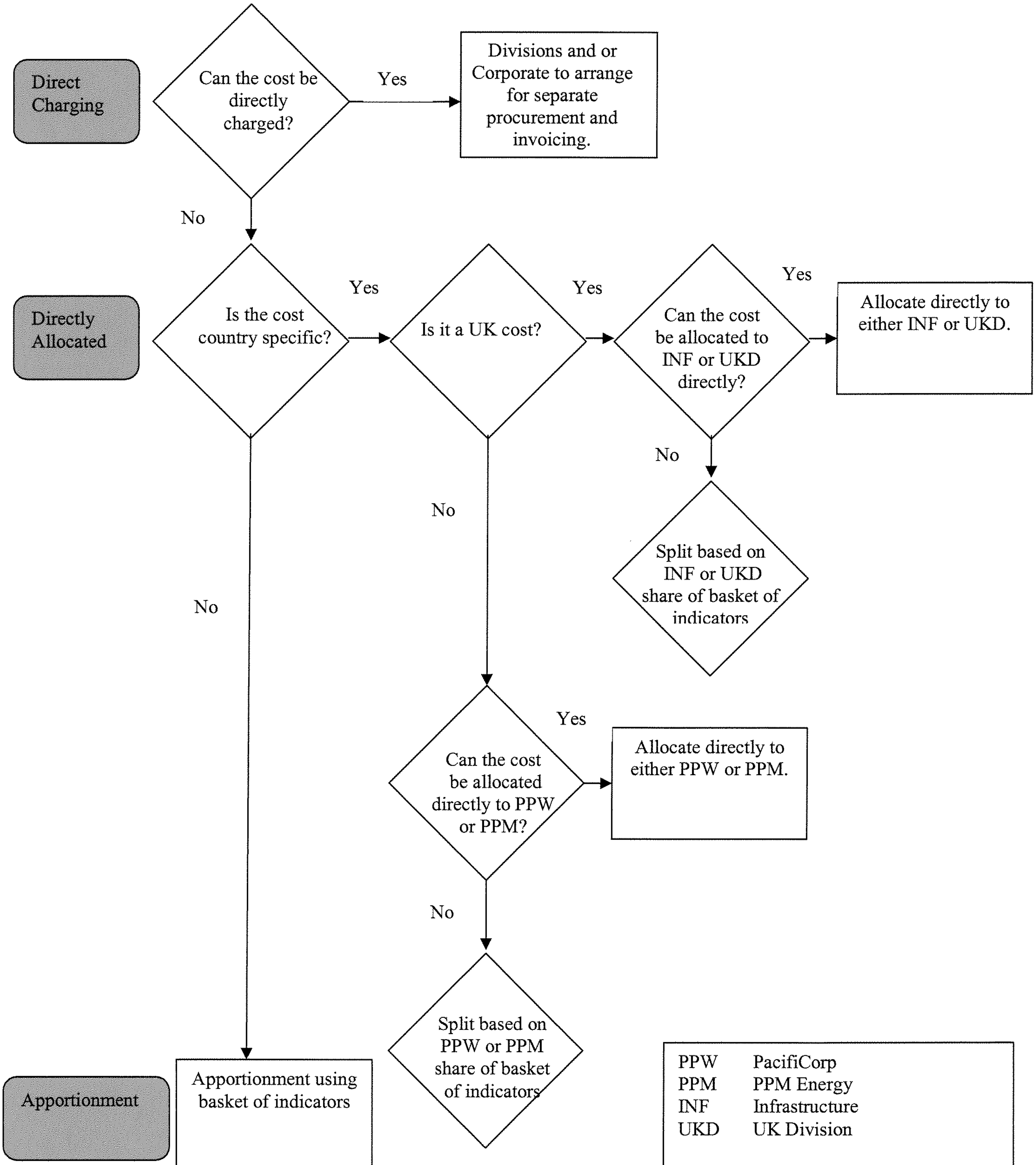
G#36372

ScottishPower UK Cross Charge
Revision to Exhibit UP&L (JTW-1) page 4.15

	Description	Amount	Reference
1	Corporate Secretarial & Annual Report	$4,088,753	
2	Group Finance	2,680,934	
3	Environmental	390,616	
4	Group Strategy	1,388,165	
5	Insurance	131,035	
6	Executive Director Services	0	
7	Dual Role Management	285,039	
8	HR Mgt Development & Compensation	1,664,892	
9	Occupancy & Computing Services	1,501,236	
10	Group Long Term Incentive Program	2,287,330	
11	Filed Amount of Cross Charges from ScottishPower UK - Total	$14,418,000	Exhibit UP&L JTW-2, page 4.8.1
12	Cross charge activities recorded below-the-line		
13	Strategic Planning	($1,388,165)	Line 4
14	Group Long Term Incentive Plan	($2,287,330)	Line 10
15	Revised amount of cross charges from ScottishPower UK - above-the-line in Account 930	$10,742,505	Sum of lines 11-14
16	Initial amount of cross charges from ScottishPower UK - above-the-line in Account 930	($13,044,000)	Exhibit UP&L JTW-1 page 4.15
17	Impact of the revision – Total company	($2,301,495)	Lines 15 + 16
18	Impact of the revision – Utah jurisdiction (SO factor)	($957,622)	Line 17 x 41.6087%

Rebuttal Exhibit UP&L (JKL-12R)

Decision Tree



PPW	PacifiCorp
PPM	PPM Energy
INF	Infrastructure
UKD	UK Division