PRELIMINARY STATEMENT
PART E

Transition Cost Balancing Account (TCBA)

1. PURPOSE

The purpose of the Transition Cost Balancing Account (TCBA) is to accrue all Competition Transition Charge (CTC) revenues and recover all CTC-eligible generation-related costs, as well as those costs imposed by Electric Industry Restructuring. The TCBA allows the Utility the opportunity to recover its transition costs and accelerate recovery of regulatory assets. The TCBA consists of one revenue account (CTC Revenue Account) and three costs accounts (Current Costs Account, Accelerated Costs Account, and Post 2001-Eligible Costs Account).

2. DEFINITIONS

a. Assembly Bill (AB) 1890:
Electric industry restructuring legislation passed by the state legislature on August 31, 1996, and signed into law by the governor on September 23, 1996.

b. Commission:
The California Public Utility Commission

c. Company:
PacifiCorp, d.b.a. Pacific Power & Light Company

d. Competition Transition Charge (CTC):
A non-bypassable charge set to recover from all customers the uneconomic costs of the utilities' generation-related assets and obligations, as defined by Public Utilities (PU) Code Section 367, 368, 369, 375, and 376.

e. Franchise Fees and Uncollectible Accounts (FF&U):
FF&U expense shall be included at the rate derived from the utility's most recent general rate case issued by the Commission.

f. Interest Rate:
The interest Rate shall be 1/12 of the most recent month's interest rate on Commercial Paper (prime, 3 months), published in the Federal Reserve Statistical Release, G.13. Should publication of the interest rate on Commercial Paper (price, 3 months) be discontinued, interest shall so accrue at the rate of 1/12 of the most recent month's interest rate on Commercial Paper which is published in the Federal Reserve Statistical Release, G.13, or its successor publication.

g. Market Price of Power (Market Price):
The average monthly price of energy as defined in Schedule TC-1, or its successor.

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PRELIMINARY STATEMENT (Continued)
PART E

Transition Cost Balancing Account (TCBA) (Continued)

2. DEFINITIONS (Continued)

g. Market Price of Power (Market Price):
The average monthly price of energy as defined in Schedule TC-1, or its successor.

h. Power Purchase Agreements (PPA):
Contracts that govern the terms by which the Utility purchases electric energy and capacity from power producers other than Qualifying Facilities (QFs).

i. Qualifying Facilities (QFs):
A non-utility power producer that meets certain operating, efficiency, and fuel use standards set forth by the FERC’s rules implementing the Public Utility Regulatory Policy Act and thereby qualifies to supply generating capacity and electric energy to electric utilities, which must purchase power according to the terms and prices approved by the Commission.

j. Rate Freeze:
Rates may not increase for any rate schedule, contract, or tariff option above the levels in effect June 10, 1996. Residential and small commercial Customer rates will be reduced by 10% as ordered in Decision D.97-12-093. The rate freeze shall remain in effect until the earlier of March 31, 2002, or the date on which the Commission-authorized costs for utility generation related assets have been fully recovered.

3. COST RECOVERY PERIODS

The TCBA will be retroactive to January 1, 1998. Recovery of generation-related transition costs will cease not later than December 31, 2001, with some exceptions as described in PU Code Sections 367, 375, 376, and 381. At the end of 2001, the Current Costs CTC Account and the Accelerated Costs CTC Account will end. The Post 2001-Eligibale Account will continue beyond the transition period. Subject to approval by the Commission CTC recovery beyond the transition period will continue for all costs in the Post 2001-Eligible Costs CTC Account. The Company will seek recovery of these ongoing transition costs beyond December 31, 2001 through the TCBA or some other mechanism, as may be authorized by the Commission.

4. TCBA RATES

The TCBA does not have a rate component at this time. Rather the CTC-related revenue is calculated on a residual basis, as described in Item 6.a.(1) below, and accrued in the CTC Revenue Account.

(Continued)

PRELIMINARY STATEMENT (Continued)
PART E

Transition Cost Balancing Account (TCBA) (Continued)

5. REPORTING REQUIREMENTS

The Company will file annual reports with the CPUC to reflect the costs and cost recovery recorded by the Company in the TCBA. The annual reports will be filed no later than April 30 of each year, beginning in 1999, reflecting recorded data from the previous calendar year. Consistent with D. 97-11-074, the annual reports shall provide the following information:

- Annual reports of all entries to the transition costs balancing account.
- Balances and returns used to develop transition costs revenue requirements.
- The assumptions used in estimating market value.
- The results of any market valuations
- Any changes in revenue requirements resulting from cost of capital additions proceedings.
- Changes in amortization schedule due to changes in market value estimates or actual market valuations.
- Any additional acceleration beyond the 48 month amortization schedule.

6. ACCOUNTING PROCEDURE

The accounting procedures in the following sections are consistent with the Commission’s guidelines for the recovery of transition costs which appear on pages 3-5 of D.97-12-039:

(1) The recovery of certain costs that are currently incurred may be deferred. The recovery of employee transition costs (as addressed in § 375) may be deferred to the post-2001 period and recovered through December 31, 2006. Section 376 provides that to the extent the Federal Regulatory Commission (FERC) or Commission approved recovery of the costs of the utility-funded programs to accommodate implementation of direct access, the Power Exchange, and the ISO, reduces the ability of the utilities to collect generation-related transition costs, those generation-related costs may be collected after December 31, 2001 in an amount equal to the implementation costs that are not recovered from the Power Exchange or ISO. Generation-related transition costs which may be displaced by the collection of renewable program funding (as addressed in § 381(d)) may be collected through March 31, 2002. Other than these exceptions, current costs should be recovered as incurred, as required by rate making principles and the accounting principle of matching revenues and expenses.

(Continued)

PRELIMINARY STATEMENT (Continued)
PART E

Transition Cost Balancing Account (TCBA) (Continued)

6. ACCOUNTING PROCEDURE (Continued)

(2) Current costs are those cost items eligible for transition costs recovery that are incurred in the current period. The definition of current costs also includes the amortization of depreciable assets on a straight line basis over the 48 month transition period. In addition certain regulatory assets which may be jeopardized by write-offs should be amortized ratably over a 48-month period. The specific regulatory assets to which this guideline applies should be determined once Phase 2 eligibility criteria are resolved. The amortization of the investment-related assets should include a provision for associated deferred taxes and the reduced rate of return called for in the Preferred Policy decision (D.95-12-063, as modified by D.96-01-009). To accommodate ongoing market valuations and accelerated recovery, the utilities should recalibrate recovery levels for remaining months of the schedule, if necessary. To the extent that revenues do not cover costs in the current period, revenues should be applied first to costs incurred during that period and then to scheduled amortization, including that of regulatory assets.

(3) To the extent that any additional headroom revenues remain and until such time as plants are depreciated to their anticipated market value, any additional revenues should be applied first to accelerate the depreciation of those transition cost assets with a high rate of return and in a manner which provides the greatest tax benefits. In this way, accelerated recovery of transition costs will benefits shareholders and Customers.

(4) As assets that are currently included in rate base are amortized, rate base should be reduced correspondingly on a dollar-for-dollar basis, including the impact of associated taxes. This will ensure that the utilities are in compliance with § 368(a) which requires among other things that transition costs be amortized such that the rate of return on uneconomic assets does not exceed the authorized rate of return.

(Continued)

PRELIMINARY STATEMENT (Continued)
PART E

Transition Cost Balancing Account (TCBA) (Continued)

6. ACCOUNTING PROCEDURE (Continued)

(5) As a general guideline for those assets subject to market valuation, generation-related assets should be written down to their estimated market value, but not below based on a relatively broad estimate of market value. We will be somewhat flexible in applying this guideline. We recognize both PG&E and Edison's concerns that public disclosure of such estimates could adversely affect the auction process and will address the need for protective orders and confidentiality as the need arises. It is not our intent to revisit the market evaluation process occurring in other proceedings.

(6) It is the duty of the Commission to determine what transition costs are reasonable and because such costs cannot be determined to be uneconomic or not until we have more information, we reject the utilities request for complete flexibility in managing their transition costs recovery. We require monthly and annual reports and will institute an annual transition cost recovery proceeding, separate from the Revenue Adjustment Proceeding. In D.96-12-088, we provided that authorized revenues would be established in the respective proceedings for various issue areas and would be consolidated in the Revenue Adjustment Proceedings. In addition, to provide further clarity to this concept, we will require the utilities to revise their pro forma tariffs to indicate that the cost accounts and subaccounts they establish are not labeled as transition cost subaccounts, but are merely the sunk cost accounts and subaccounts. This is important because we are establishing the sunk costs in Phase 2 of these proceedings, but the uneconomic portion of these costs (which is the portion eligible for transition cost recover) must be established on an ongoing basis.

(7) To the extent feasible, current costs, including those categories that may be deferred, should be recovered before December 31, 2001. We expect that the deferred transition costs should be small relative to the transition costs incurred from qualifying facility (QF) contracts and amortizing nuclear assets. Restructuring implementation costs and employee related transition costs may be deferred with interest at the usual 90-day commercial paper rate. Generation-related transition costs that are deferred because of funding programs addressed in § 381(d) shall not accrue interest.

(Continued)

PRELIMINARY STATEMENT (Continued)
PART E

Transition Cost Balancing Account (TCBA) (Continued)

6. ACCOUNTING PROCEDURE (Continued)

(8) To the extent possible, the utilities should manage acceleration of assets to achieve a matching of revenues to current costs plus the portion of noncurrent costs that is accelerated, in a manner to avoid major under- or overcollections of the competition transition charge. To the extent that noncurrent costs are accelerated, the utilities should recalibrate the remaining months of the recovery schedule to adjust the depreciation schedule through the end of the transition period. To the extent that over- or undercollections occur, interest will accrue at the usual 3 month commercial paper rate, with the exception of deferred generation-related transition costs displaced because of funding the § 381(d) programs.

a. **CTC Revenue Account:**
This account records all CTC monthly revenues, excluding FF&U expense, received from customers through electric prices, imputed revenues and other revenues as described in Items (2) through (4), below.

(1) A credit entry equal to the amount of CTC residual revenues the Company receives from its Customers for services rendered during the month. The CTC revenues for each month is defined as the difference between the revenue generated by the generation component of prices and the revenue generated by the market price of energy for that month. The market price of energy is defined in Schedule EC-1 of this Tariff.

(2) A net credit or debit entry, as appropriate at the time that market valuation of generation-related plant occurs, equal to the difference between the market value of generation plant and the sum of the net book value of generation plant and transaction costs.

(3) A credit entry equal to the gross revenue received for the sale of excess emission credits, if any, less sales costs.

(4) A monthly debit entry to transfer revenue to the current cost CTC Account, Accelerated CTC Account, and Post 2001-eligible Costs CTC account.

To the extent a balance exists in the revenue account or any of the cost accounts these balances including interest will be carried over to the next month.

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PRELIMINARY STATEMENT (Continued)
PART E

Transition Cost Balancing Account (TCBA) (Continued)

6. ACCOUNTING PROCEDURE (Continued)

b. Current Costs Account

The purpose of the Current Costs account is to recover the above-market costs of the Company's generation plant, generation-related regulatory assets, QFs, and other PPAs. The Current Costs Account consists of two subaccounts, the Currently Incurred Costs Subaccount and the Scheduled Amortization Subaccount.

Consistent with Decision 97-06-060, if revenues remain in the CTC Revenue Account after all costs in the Current Costs Account are recovered, this revenue may be used to further accelerate costs in the Accelerated Costs Account described below.

Entries shall be made in the Current Costs Account at the end of each month (with the exception of credit or debit entries that will be recorded as they occur) as follows:

(1) Currently Incurred Subaccount

The costs recorded in the currently Incurred Subaccount are costs that the utility incurs in the current period. Consistent with D. 97-06-060, these costs should be recovered prior to cost recorded in the Scheduled Amortization Subaccount.

Balancing Account Entries

Debit entries at the time of Commission approval, to transfer the sum of all the costs in the IRMA subaccounts and other memorandum accounts that are approved by the Commission for transition cost recovery.

QF Entries

(i) A monthly debit entry equal to payments made to or from QFs, including payments for restructuring, termination, settlement, and judgments related to QF power purchase agreements, administration, and litigation costs associated with these contracts. Interest will be applied to any amount not recovered during the month.

(ii) A monthly credit entry based on the Market Price for energy purchased from QFs for the month.

Power Purchase Agreements (PPA) Entries

(i) A monthly debit entry equal to payments made under PPAs.

(ii) A monthly credit entry based on Market Price for energy purchased under purchase power contracts for the month.

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PRELIMINARY STATEMENT (Continued)
PART E

Transition Cost Balancing Account (TCBA) (Continued)

6. ACCOUNTING PROCEDURE (Continued)

b. Current Costs Account (continued)

(1) Current Incurred Subaccount

Transfer of Balance Entries

(i) If applicable, a monthly credit entry to transfer revenues from the CTC Revenue Account to recover the debit balance in this subaccount.

(ii) If applicable, a monthly debit entry to transfer the net credit balance in this subaccount to the Revenue Account.

(iii) If applicable, a one-time credit on December 31, 2001 to transfer the balance in the subaccount to subaccounts in the Post 2001-Eligible Account, consistent with Section 5.(d).

Revenue for the CTC Revenue Account will first be used to recover costs in the Currently Incurred Subaccount in the Current Costs Account described above. To the extent a balance remains in the CTC Revenue Account after all costs in the Currently Incurred subaccount have been recovered, these revenues will be used to recover costs in the Scheduled Amortization Subaccount in the Current Costs Account, as described below.

(2) Scheduled Amortization Subaccount

PU Code section 367 allows the Utility to accelerate recovery of the uneconomic portion of Generation plants, regulatory assets and other fixed obligations. Consistent with CPUC Decision 97-06-060, the following debits reflect the amortization of the uneconomic portion of the utility’s generation plant and generation-related regulatory assets as of January 1, 1998, depreciated on a straight line basis, over a 48-month period, beginning January 1, 1998 until December 31, 2001.

Regulatory Assets Entries

A monthly debit entry equal to the total generation-related regulatory assets revenue requirement as of January 1, 1998, divided by 48. Generation-related regulatory assets include the costs associated with contract restructuring including any buy-out, buy-down, renegotiating, or termination of such contract, miscellaneous deferred debits associated with environmental clean-up, post-retirement benefits other than pensions (PBOPS), deferred taxes, and abandoned projects.

(Continued)

PRELIMINARY STATEMENT (Continued)
PART E

Transition Cost Balancing Account (TCBA) (Continued)

6. ACCOUNTING PROCEDURE (Continued)

b. Current Cost Account

(2) Scheduled Amortization Subaccount

Fossil Entries

(i) A monthly debit entry equal to the revenue requirements of the uneconomic portion of the fossil sunk costs as January 1, 1998 divided by 48. This revenue requirements will reflect a rate of return of 6.75%.

(ii) A debit entry, as appropriate, equal to the amount of costs associated with CPUC-approved capital additions fossil plants, divided by the number of months remaining until December 31, 2001. This debit will not occur for plants that have under gone market valuation.

(iii) A one-time credit or debit netting the CPUC approved market value of the plant against the net book value of the plant. This netted result will equal the fossil plant gain or loss amount. A loss will be amortized over the number of months remaining until December 31, 2001, a gain will be credited to the CTC Revenue Account.

The uneconomic portion of generation plant will initially be determined based on an estimate of the market value of generation plant. The Company’s initial estimate of market value is that the combined market value of its eligible California generation-related plant is equal to the net book value of that plant. Fossil entries (i) and (ii), above, will be set to zero.

The Company will identify those generation-related regulatory assets eligible for CTC recovery consistent with the Commission’s Decision 97-11-074 and will amortize those assets over a 48-month period beginning January 1998.

(Continued)

PRELIMINARY STATEMENT (Continued)
PART E

Transition Cost Balancing Account (TCBA) (Continued)

6. ACCOUNTING PROCEDURE (Continued)

c. **Accelerated Costs Account**
PU Code section 367 allows the utility to accelerate recovery for generation plants, undepreciated assets and other fixed obligations. Consistent with CPUC Decision 97-06-060, if revenues remain in the CTC Revenue Account after current costs are recovered, available revenues may be used to further accelerate costs until assets are depreciated to their anticipated market value. The priority of recovery will be those assets which earn the highest return and allow for the greatest tax benefits to customers. To the extent costs are accelerated faster than the 48-month amortization schedule in the Current Costs Account, the debit amounts to the Scheduled Amortization Account may need to be recalculated. The following entries may be made to this account:

Fossil Entry
A debit entry to accelerate recovery of the revenue requirements associated with the uneconomic portion of the fossil sunk cost.

Regulatory Asset Entry
A debit entry to accelerate recovery of the generation-related regulatory asset revenue requirement.

QF Entry
(i) A debt or credit entry equal to the true-up of forecast to actual costs that the company will incur as a result of accelerating recovery of future QF costs.
(ii) A debit entry to accelerate future QF costs, provided this acceleration will not jeopardize the possibility that the rate freeze could end prior to March 31, 2002.

Transfer of Costs Entry
(i) If applicable, a monthly credit entry to transfer revenue from the CTC Revenue Account to recover the debit balance in this Account
(ii) If applicable, a one-time credit on December 31, 2001 or at the designated end of the Rate Freeze (whichever is earlier) to transfer the balance in this Account to subaccounts in the Post 2001-Eligible Costs Account.

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PRELIMINARY STATEMENT (Continued)
PART E

Transition Cost Balancing Account (TCBA) (Continued)

6. ACCOUNTING PROCEDURE (Continued)

d. Post 2001-Eligible Costs Account
The Post 2001-Eligilable Costs Account records costs that are eligible for recovery after the rate freeze period or December 31, 2001 (whichever is earlier). This account includes generation-related transition costs incurred during the rate freeze period whose recovery may be extended until March 31, 2002, as designated by PU Code sections 367(a), 376, and 381(d) and Decision 97-06-060. The costs listed in this account are subject to different recovery ending dates, as specified in PU Code Section 367(a) and 381(d), depending on the specific costs. Restructuring implementation costs will earn interest.

(1) Restructuring Implementation Costs Subaccount
One time debit entries on January 1, 2002 equal to the amount of generation-related transition costs including interest, that remain unrecovered on December 31, 2001 due to the recovery, during the transition period, of restructuring implementation costs. The amount of the cost to be debited to this account will not exceed the amount of restructuring implementations costs debited to the TCBA during the transition period. The costs to be included are those transition costs from the Current Costs Account and/or the Accelerated Costs Account that remain unrecovered after December 31, 2001. On January 1, 2002 the transfer of remaining balances will be accomplished by making one-time credits to one or more of the subaccounts within the Current Costs and/or Accelerated Costs accounts and debiting this subaccount by the equivalent amount. Subject to Commission approval, recovery of these cost will continue beyond 2001 until these costs are fully recovered.

(2) QF Subaccount
Recovery of the following costs will continue, after 2001, for the duration of the QF contracts.

(i) A debit entry equal to payments made to QFs after 2001, including payments for restructuring, termination, settlement, and judgments related to QF power purchase agreements, and the administration and litigation costs associated with these contracts.
(ii) A debit entry equal to the accelerated amount associated with future QF costs after 2001.
(iii) A debit or credit entry equal to the true up of forecast to actual costs that the utility will incur as result of accelerating recover of future QF costs.
(iv) A monthly credit entry based on the Market Price for energy purchased from QFs for the month.
(v) If the sum of item (i) through (iv) equal a net credit balance, a debit will be recorded to this subaccount, equal to the sum of items (i) through (iv), to transfer this net credit balance to the CTC Revenue Account.

(Continued)

PRELIMINARY STATEMENT (Continued)
PART E

Transition Cost Balancing Account (TCBA) (Continued)

6. ACCOUNTING PROCEDURE (Continued)

d. Post 2001 - Eligible Costs Account (continued)

3) Power Purchase Agreement (PPA) Subaccount
Pursuant to D.97-06-060, recovery of the following costs will continue, after 2001, for the duration of the Purchased Power Agreements:
(i) A debit entry equal to payments made under PPAs, including administration and litigation costs associated with these contracts.
(ii) A credit entry based on the Market Price for energy purchased under PPAs for the month.
(ii) If the sum of item (i) and (ii) equal a net credit balance, a debit will be recorded to this subaccount, equal to the sum of items (i) and (ii), to transfer this net credit balance to the CTC Revenue Account.

(e) Firewall Mechanism
AB 1890 requires that a firewall be created to ensure that the two customer groups (combined Residential and Small General Service classes versus remaining large customer classes) only pay for their own CTC exemptions. The Revenue Reduction Memorandum Account as authorized in D.97-12-093 records the amount of revenue, primarily CTC revenue, that would have been received if Residential and Small General Service customers had not been given the 10% discount. In a separate tracking mechanism, the utility will impute the amount of discounted CTC revenues into the TCBA. For tracking purposes only, the amounts of the discounted revenues will be credited as imputed revenue into the CTC Revenue Account as though the utility had actually received CTC from the small customers. Based on the sum of actual CTC revenues, and the imputed exempt CTC Revenues, the balance in all the CTC cost accounts may reach zero at some time during the transition period. This determines the point in which all CTC-eligible costs would have been recovered, had the small customers not been given discounts. In reality, the amount of CTC-eligible costs that actually remain to be recovered in the actual CTC Cost Accounts is equal to the amount of the exemptions that have occurred. These remaining costs will be recovered by further extending the rate freeze, or any alternative mechanism approved by the Commission, until that customer category pays the amount of CTC discounts that are recorded in the Revenue Reduction Memorandum Account. After which the rate freeze for that customer group would end.