

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

In the Matter of the Application of

PACIFICORP AND SCOTTISH POWER PLC

For an Order (1) Disclaiming Jurisdiction or, in the Alternative, Authorizing the Acquisition of Control of PacifiCorp by Scottish Power and (2) Affirming Compliance with RCW 80.08.040 for PacifiCorp's Issuance of Stock in Connection with the Transaction

Docket No. UE-981627

STIPULATION

This Stipulation (“Stipulation”) is entered into among PacifiCorp (“PacifiCorp”), Scottish Power plc (“ScottishPower”) and the Staff of the Washington Utilities and Transportation Commission (“Staff”).

BACKGROUND

On December 31, 1998, PacifiCorp and ScottishPower filed an Application with the Commission requesting an Order (1) Disclaiming Jurisdiction or, in the Alternative, Authorizing the Acquisition of Control of PacifiCorp by ScottishPower and (2) Affirming Compliance with RCW 80.08.040 for PacifiCorp's Issuance of Stock in Connection with the Transaction. Prehearing conferences were convened on February 8, and March 18, 1999, and Joint Applicants submitted their direct testimony on April 23, 1999. Following Staff's review of the Application and accompanying materials and completion of its discovery with respect to Joint Applicants' direct testimony, PacifiCorp, ScottishPower and Staff (the "Parties") met to discuss the proposed transaction and resolve outstanding issues. This Stipulation constitutes the resolution of issues between the Parties.

TERMS OF STIPULATION

The terms and conditions of this Stipulation are set forth below. The Parties recommend that the Commission approve the Application in this docket, subject to the conditions of this Stipulation. Staff will include this recommendation in its prefiled direct testimony and will support its recommendation in this Docket.

1. PacifiCorp/ScottishPower agree to all commitments and conditions as included in their application in Docket No. UE-981627 and the accompanying testimony and exhibits, except as modified in this Stipulation.

2. The capital requirements of PacifiCorp, as determined to be necessary to meet its obligation to serve the public, shall be given a high priority by the Board of Directors of the parent holding company and the utility.

3. In each rate proceeding filed with the Commission, PacifiCorp/ScottishPower shall have the burden to show that any resource additions, including renewable resources, which are included in the rate base or the revenue requirement for the first time in that rate proceeding are reasonable and prudent investments.

4. Staff and PacifiCorp/ScottishPower will work together to establish the baselines related to the network performance standards. Public Counsel will be invited to participate in this effort. If Staff and PacifiCorp/ScottishPower (and Public Counsel if it participates in the discussions) fail to agree by October 1, 1999, on the appropriate baselines, PacifiCorp/ScottishPower shall no later than October 15, 1999 submit a filing to the Commission setting forth their proposed baselines. Staff, Public Counsel and other interested parties will be given an opportunity to comment on such filings. PacifiCorp/ScottishPower agree to abide by the Commission's decision regarding the appropriate baselines.

5. The proposed network performance standards, customer service performance standards, and customer guarantees will be reviewed after two years of experience with these standards within Washington to see if any modifications may need to be made to better maintain or improve network reliability, network safety, and customer satisfaction. In this regard, no later than July 1, 2002, PacifiCorp/ScottishPower will file with the Commission and all intervenors in this Docket a report detailing the companies' experience with the established standards and any proposed changes thereto. Pending any changes resulting from this report, the existing service standards and customer guarantees would remain in place in Washington. In implementing the network performance standard regarding five worst performing circuits within Washington, any circuit selected in any one year as a worst performing circuit shall not be reselected during the five (5) year period.

6. PacifiCorp/ScottishPower agree that if PacifiCorp's network performance falls below baseline levels in Washington, PacifiCorp/ScottishPower will present a report as soon as practicable to the Commission explaining the deterioration in performance and will commit to an accelerated action plan (including required financial expenditures) to cure the deterioration in performance. In such an event, PacifiCorp/ScottishPower will carry the burden of demonstrating the prudence of their management of the system and the associated recoverability of their expenditures.

7. In addition to their network and customer service performance standards, PacifiCorp/ScottishPower agree to comply with any service standards adopted by the Commission. Staff acknowledges, however, that the penalties associated with the PacifiCorp/ScottishPower network and customer service performance standards will not apply to any service standards adopted by the Commission. The provisions of this paragraph will not affect any penalties adopted or assessed by the Commission as part of any rules.

8. PacifiCorp/ScottishPower agree that in resolving complaints referred to the company by the Commission, the applicable Commission rule, WAC 480-100-096(5), will govern the company's actions with respect to the time within which an initial response will be provided to Commission Staff.

9. PacifiCorp/ScottishPower and Staff agree that the number of complaints received by the Commission from PacifiCorp customers should be reduced as a result of implementation of the service quality improvements proposed by ScottishPower/PacifiCorp in this proceeding. The level of such complaints shall be reviewed two years following completion of the transaction. If a reduction in the number of such complaints is not achieved, PacifiCorp/ScottishPower will file a report with the Commission detailing the areas of concern most often raised by customers and proposing an action plan for addressing these concerns in the future.

10. Staff and PacifiCorp/ScottishPower will work together to develop an effective education program for the company's customers regarding the customer service guarantees. The purpose of such a program will be to educate customers about their rights under such customer service guarantees and the steps required to claim any payment due to customers based on lack of performance on the part of the company. PacifiCorp/ScottishPower will notify customers annually of the customer service guarantees and how to effect any credits due them. Such notification may be included as part of the company's annual report to customers regarding its record with respect to performance standards and customer guarantees.

11. As part of the implementation of the customer service guarantees, PacifiCorp/ScottishPower will empower its business office staff to process calls from customers seeking to make claims under the guarantee regarding restoration of power supply within 24 hours.

12. PacifiCorp/ScottishPower agree that during the 15-day working period in which the company has committed to investigate and report back to customers on billing or metering problems, it will not take action with respect to such customers' accounts by initiating collection remedies or disconnecting customers' power supply.

13. Any penalties paid by the companies as a result of failure to meet their proposed service standards in Washington, excluding penalties paid directly to customers, shall be paid directly to a designated organization to benefit energy customers in Washington. Upon the assessment of any penalties, PacifiCorp/ScottishPower shall consult with Staff and Public Counsel to identify an appropriate organization, and shall file with the Commission a proposal recommending a particular organization. Staff, Public Counsel, and other parties shall be provided an opportunity to comment on such recommendation. PacifiCorp/ScottishPower agree to be bound by the Commission's decision regarding the designated organization.

14. No later than June 18, 1999, PacifiCorp/ScottishPower shall provide the Commission and other jurisdictional state rate regulators a proposed methodology for the allocation of corporate and affiliate investments, expenses, and overheads and a statement of where each of the ScottishPower principal corporate departments will sit in the corporate structure. This document would constitute a draft of what is to be filed regarding cost allocations with the Securities and Exchange Commission. No later than October 15, 1999, PacifiCorp/ScottishPower shall provide Commission Staff with a comparison of such proposed methodology with the methodology currently being applied by PacifiCorp with respect to allocation of corporate overheads. No later than October 15, 1999, PacifiCorp/ScottishPower shall schedule a conference/meeting with state and other interested regulators to discuss the proposed corporate and affiliate cost allocation methodology.

15. Within 30 days of receiving all state, federal, and foreign regulatory approvals of the final corporate and affiliate cost allocation methodology, a written document setting forth the final corporate and affiliate cost methodology shall be submitted to the Commission as a compliance filing related to this merger application. On an on-going basis, the Commission shall also be notified of anticipated or mandated changes to the corporate and affiliate cost allocation methodologies.

16. With respect to the ratemaking treatment of affiliate transactions, PacifiCorp/ScottishPower shall comply with the Commission's then-existing practice. In accordance with current practice, PacifiCorp/ScottishPower shall not contest the Commission applying the more advantageous of cost or market pricing standard, where a market for goods or services or assets exists.

17. PacifiCorp/ScottishPower agree not to cross-subsidize between the regulated and non-regulated businesses or between any regulated businesses, and shall comply with the Commission's then-existing practice with respect to such matters.

18. In the event any other state Commission or its Staff undertakes an audit of cost allocations and affiliated transactions between the utility and non-regulated businesses, PacifiCorp/ScottishPower will provide Staff with a copy of any report or document resulting from such audit.

19. PacifiCorp/ScottishPower agree to provide access to books and records (including those of the parent or affiliate companies) required to be accessed to verify or examine transactions affecting PacifiCorp's regulated utility operations and such books and records shall be provided at a United States location in English. PacifiCorp/ScottishPower will provide conversions to United States dollars as appropriate. Administratively, requests for such books and records made by the Commission, its staff or its authorized agents, shall be deemed presumptively valid, material and relevant. PacifiCorp/ScottishPower reserve the right to challenge any such request before the Commission and shall have the burden of demonstrating that any such request is not valid, material or relevant.

20. PacifiCorp/ScottishPower shall maintain the necessary books and records so as to provide an audit trail for all corporate or affiliate transactions that impact the PacifiCorp regulated utility operations.

21. PacifiCorp/ScottishPower shall not assert in any future Washington proceeding that the provisions of the Public Utility Holding Company Act of 1935 or the related Ohio Power v FERC case preempt the Commission's jurisdiction over affiliated interest transactions and will explicitly waive any such defense in those proceedings.

22. On an annual basis on or before July 1st of each year, PacifiCorp shall file an affiliate transactions report which includes the following: an organizational chart showing the parent company and all subsidiaries; a narrative description of each affiliate with which PacifiCorp does business; the revenue for each affiliated entity with which PacifiCorp does business; a report of transactions between each affiliate and PacifiCorp; and a description of any intercompany loans. Reports filed by PacifiCorp/ScottishPower pursuant to the Commission's regulations may be used, to the extent applicable, to fulfill these requirements. Additionally, PacifiCorp/ScottishPower shall not assert in any Washington proceeding preemption by a United Kingdom or other foreign regulator over cost allocations or affiliate interest transactions.

23. In the event that PacifiCorp/ScottishPower do not comply with the above conditions, Staff will propose appropriate ratemaking adjustments to give full effect to these conditions. PacifiCorp/ScottishPower do not contest the Commission's authority to disallow, for retail ratemaking purposes, unsupported, unreasonable, or misallocated costs from nonregulated or affiliate business to PacifiCorp/ScottishPower.

24. Nothing in this Stipulation shall preclude the Commission from participating in related proceedings before the Federal Energy Regulatory Commission or the United States Securities and Exchange Commission.

25. Nothing in this Stipulation affects the ability of PacifiCorp/ScottishPower to request confidential treatment of information or documents they believe to be valuable commercial information within the meaning of RCW 80.04.095 when such information or documents are filed with the Commission or Commission Staff, or made available to them or their agents, in compliance with these conditions. Any request for confidential treatment will be handled as provided in Chapter 480-09 WAC of the Commission's Rules of Practice and Procedure and in accordance with Chapter 42.17 RCW and RCW 80.04.095. This provision has no effect on the ability of Staff or any other person to challenge the claim of confidentiality as to any document filed by the company or made available to Staff.

GENERAL TERMS AND CONDITIONS

26. PacifiCorp, ScottishPower and Staff agree that this Stipulation represents a resolution of the issues between them. As such, all discussions, evidence or conduct relating to this Stipulation are privileged and confidential.

27. Staff recommends that the transaction be approved subject to the conditions set forth in this Stipulation. The Parties agree that no further conditions are necessary for the Commission to find that the transaction is in the public interest. Staff reserves the right to review and comment on issues raised and additional conditions proposed by other parties to the proceeding. PacifiCorp/ScottishPower would not object to a request by Staff to file cross-answering testimony, simultaneously with the filing of rebuttal testimony by PacifiCorp/ScottishPower, for purposes of commenting on such matters.

28. The Parties shall cooperate in submitting this Stipulation promptly to the Commission for acceptance, and shall support adoption of the Stipulation in prefiled testimony submitted in this proceeding. In addition to prefiled testimony, each Party shall make available at hearing a witness in support of the Stipulation, at which time other parties to the proceeding would have an opportunity to cross-examine such witnesses on the Stipulation and their prefiled testimony. In the event the Commission rejects all or any material portion of this Stipulation or imposes additional, material conditions in approving the Application, each Party reserves the right to withdraw from the Stipulation. In such case, no Party to this Stipulation shall be bound or prejudiced by the terms of this Stipulation and each Party shall be entitled to seek reconsideration of the Commission Order, file any testimony it chooses, to cross-examine witnesses and in general to put on such case as it deems appropriate.

29. PacifiCorp, ScottishPower and Staff agree that this Stipulation is in the public interest and that all of its terms and conditions are fair, just and reasonable.

30. No Party shall be bound by any position asserted in the negotiations, except to the extent expressly stated in this Stipulation. Execution of this Stipulation shall not be deemed to constitute an acknowledgment by any Party of the validity or invalidity of any particular method, theory or principle of regulation, and no Party shall be deemed to have agreed that any method, theory or principle of regulation employed

in arriving at this Stipulation is appropriate for resolving any issue in any other proceeding. No findings of fact or conclusions of law other than those stated herein shall be deemed to be implicit in this Stipulation.

Dated: June 10, 1999

**Staff, Washington Utilities &
Transportation Commission**

PacifiCorp

By _____
Its _____

By _____
Its _____

Scottish Power plc

By _____
Its _____

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