



OFFICE OF
PUBLIC UTILITY REGULATION

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

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October 14, 2003

SECURITIES DIVISION

Ms. Julie P. Orchard
Commission Secretary
Utah Public Service Commission
160 East 300 South
Salt Lake City, UT 84114

98-2035-04

Dear Ms. Orchard:

This letter is intended to inform your Commission that we have commenced an examination of the Scottish Power plc System under Sections 13 and 15 of the Public Utility Holding Company Act of 1935. Scottish Power plc has received separate Initial Examination Requests ("IER") for Scottish Power plc and for PacifiCorp. The examination will primarily focus on Scottish Power plc, PacifiCorp and certain non-utility subsidiaries for the fiscal years ended March 31, 2002 and 2003 in addition to selected transactions through September 30, 2003.

Our examination will be conducted from Washington D.C. with the possibility of a field examination of Scottish Power plc and/or PacifiCorp. We will notify you if field examinations will be conducted.

With this letter, we are extending an invitation to the Utah Public Service Commission to participate in our examination of PacifiCorp. Please let us know by November 3, 2003 if your agency will be able to participate in our examination of PacifiCorp. Please find a copy of our IER to PacifiCorp. We will request that PacifiCorp send a copy of their IER responses directly to you.

You can reach me at 202-942-0543 (wasonr@sec.gov), Dan Furlano at 202-942-0674 (furlanod@sec.gov) or Laury Cornell at 202-942-0549 (cornelll@sec.gov).

Sincerely,

Robert P. Wason
Chief Financial Analyst,
Branch Chief, Auditing
and Financial Policy

Enclosure

cc: Roger Weaver, REA Director Strategy and Planning, PacifiCorp
Natalie Hocken, Senior Counsel, PacifiCorp

INITIAL EXAMINATION REQUEST

PACIFICORP

PUHCA ELECTRIC INTEGRATION AND NON-UTILITY SUBSIDIARY OPERATIONS & RETENTION

1. In accordance with Commission Order HCAR No. 35-27290 dated December 6, 2000, Scottish Power is ordered to support the following:
 - a. PacifiCorp was ordered to conduct its utility operations in compliance with the integration and coordination requirements of section 11(b). The post-effective amendment filed on March 23, 2001 does not provide an accurate analysis describing how PacifiCorp is an integrated electric utility system under PUHCA. Please provide a narrative discussion of PacifiCorp's utility services in its five-state service territory. In particular, discuss how all of the operations are physically interconnected and centrally and economically dispatched. Include a full discussion of any relationship that PacifiCorp may have with any independent transmission operating group, to include the details, if appropriate, concerning the ownership of transmission assets and the distribution of benefits and liabilities. PacifiCorp should provide the Examination Staff with a legal analysis for each of the four components of 2(a)(29)(A).
 - b. Retention of PacifiCorp's non-utility subsidiaries under section 11(b)(1) of the Act. The Examination Staff reviewed Scottish Power's Item 1 of its March 31, 2003 Form U5S and determined it is deficient because it does not give a description of the nature of the business of each statutory subsidiary and signify by indentation or numbering where in the corporate structure that subsidiary exists. The post-effective amendment filed on March 23, 2001 also does not provide an adequate analysis describing the nature of the business and legal status under the Act. The Examination Staff requests that Scottish Power provide a description of PacifiCorp's current non-utility subsidiaries and the status of those that existed as of December, 1999 to include a cite to a section or rule of the Act or a previous Commission order that serves as a precedent, so the Examination Staff can determine the retainability of each current statutory subsidiary. Please provide a listing of each affiliate or other business interest and the same information that is requested for subsidiaries, for each affiliate or business interest, so the Examination Staff can do the same for these types of interests.

INTERNAL CONTROLS

2. Provide a description of any "checks and balances" within PacifiCorp pertaining to the provision of associate company transactions (i.e., intra Scottish Power System company sales, services, and construction contracts). In this description, checks and balances should include a discussion of such items as: (a) the budgeting process; (b) monitoring of costs vs. budget; (c) management reporting; (d) the function of internal audits; (e) the degrees to which the company receiving the services review billings; and (f) the degree to which such transactions occur at arms-length.

Please identify the State Commissions that review affiliate transactions and provide the Examination Staff with any 2001, 2002 and 2003 reports that they have provided PacifiCorp related to their review of affiliate transactions. Also, demonstrate compliance with state codes of conduct where applicable. **AUDIT KEY - A&AC**

3. Please describe PacifiCorp's cash management system. Is the source of funds being channeled by the holding company or affiliates and are they backstopped by lines of credit? Are there any interrelationships between PacifiCorp's and Scottish Power's cash management programs? If yes,

please describe them. Please describe how cash is circulated within PacifiCorp and its subsidiaries. Provide the Examination Staff with a copy of the documentation supporting such process. **AUDIT KEY – C&P**

4. Provide a copy of your Service Agreement (i.e. contractual obligations to provide goods and services) if any, with associate companies. The Examination Staff needs to understand what contractual arrangements PacifiCorp has with its associate companies to provide goods and services. If applicable, please also describe the method and frequency of establishing, renewing, and amending these agreements.
AUDIT KEY – GA
5. Provide a copy of your Policy & Procedures Manual that should include time card and work order (or other cost collectors) procedures, budgeting process and expense versus capital items.
AUDIT KEY – A
6. Please describe your cost accounting system and how it captures costs and bills such costs to each associate company. The Examination Staff needs to understand how PacifiCorp keeps track and accounts for costs that are incurred for the benefit of its associate companies. Provide the allocation formulas for allocating costs to each associate company. **AUDIT KEY – C&P**
7. Please explain the process for terminating work orders (or other cost collectors). How often are work orders reviewed to ascertain whether inactive work orders exist or not? **AUDIT KEY – C&P**
8. Provide an organization chart for PacifiCorp and identify the department head employee of each department. **AUDIT KEY – GA**
9. Please provide a copy of the current Internal Audit Procedures and Policy Manual.
AUDIT KEY – C&P
10. Please provide a list of all audit reports for PacificCorp and its subsidiaries and other studies issued by the Internal Audit Department for the periods November 29, 1999 thru June 30, 2003. The list should provide sufficient detail to enable the Examination Staff to determine the subject matter of the audit. The Examination Staff will select certain of these reports for review which will include submitting copies of these reports to the Commission Staff in Washington, D.C. during the Desk Component of the audit. **AUDIT KEY – C&P**
11. Please explain whether certain audits are performed at regular intervals, particularly any involving the review PacifiCorp's methods of allocating and billing its charges for services.
AUDIT KEY – A

INTER-COMPANY TRANSACTIONS

12. Provide an accounts payable listing for the fiscal years ended March 31, 2002 and 2003 of expense statement reimbursements for the officers of PacifiCorp. Provide the Examination Staff with a copy of the PacifiCorp policy related to expense statement reimbursement.
AUDIT KEY – HC
13. Please describe how PacifiCorp allocates any costs related to lobbying and/or consulting of federal and state regulators and/or political issues. Provide copies of detailed invoices by item and amount for the fiscal years ended March 31, 2002 and 2003. **AUDIT KEY – HC**
14. Please provide a list of office buildings owned, rented or leased by PacifiCorp. Is floor space allocated to non-utility associate companies? Please provide details of the floor space allocated to

non-utility associate companies for each office building during the fiscal years ended March 31, 2002 and 2003. **AUDIT KEY – HC**

15. Are all sales, services, and construction contracts between PacifiCorp and its associate companies billed at cost? If so, please define cost (i.e. if cost includes a debt cost of capital, identify the component and how the component is calculated; if cost includes an equity cost of capital, identify the component and how the component is calculated). In the situations in which “cost” is charged for services rendered to an associate company by a subsidiary company, please describe how this charge complies with rules 90 and 91 under PUHCA. **AUDIT KEY - AC**

16. Please provide a description of PacifiCorp’s billing process. Among other things, please include a description of when PacifiCorp bills its associate companies, the process for generating the bills, and the terms of payments for associate companies. Please provide copies of PacifiCorp’s detailed invoices for services billed to Scottish Power, PacifiCorp Holdings, Inc., PacifiCorp Group Holdings Company, PPMEnergy, Inc. and Pacific Klamath Energy, Inc. for December 2002 and June 2003. Also, provide a copy of a legal invoice (with billing classification) and demonstrate how the costs are allocated to the associate companies and where it appears on an individual company invoice. **AUDIT KEY - A**

17. Please describe PacifiCorp’s time reporting procedures. Within the description, please highlight any documentation, including the PacifiCorp employee handbook, and guidance given to employees and the approval process for time reporting. Who approves officers’ time sheets? Please provide a copy of time sheets for the periods December 2002 and June 2003 for the following officers of PacifiCorp: Richard Peach, William Landels, Andrew MacRitchie, Matthew Wright, Michael Pittman, Donald Furman, Andrew Haller, Robert Klein, Robert Moir, A. Richard Walje, Barry Cunningham, Stan Watters, Donald Larson, Ernest Wessman, Bruce Williams, Jeffery Erb, Michael Jenkins, Alexander Tait, Larry Martin, and Tanya Sacks. **AUDIT KEY – C&P**

18. Please describe any bonus, stock award, or stock option program for PacifiCorp. To which account are these costs recorded. For the fiscal years ended March 31, 2002 and 2003 provide an analysis of the amounts and how allocated to associate companies. If no costs were allocated to PacifiCorp, please explain why not. **AUDIT KEY – A&HC**

19. For the fiscal year ended March 31, 2003, provide a listing or report that identifies each existing work order (or other cost collectors). For each work order, please identify the work order number, briefly explain the purpose of the work order, and summarize the costs distributed pursuant to each work order for each company. Please submit this data to the Examination Staff in Washington, D.C. using the following format:

WO #	WO Description	Allocation Basis	Company	Costs Distributed (by company)
1	xxx	xxxxx	Scottish Power	\$xx,xxx
			Pacific Klamath	\$xx,xxx
			PacifiCorp Financial	\$xx,xxx
			Total	
2	xxx	xxxxx	Scottish Power	\$xx,xxx
			Pacific Klamath	\$xx,xxx
			PacifiCorp Financial	\$xx,xxx
			Total	

From your response, the Examination Staff will select certain work orders for review on site.
AUDIT KEY – C&P

ACCOUNTING AND REPORTING

20. For the fiscal years ended March 31, 2002 and 2003, please provide an accounts payable listing for each country club/social club for each of the officers of PacifiCorp and if they were allocated to each associate company, the method of allocation. **AUDIT KEY - A&HC**
21. How does PacifiCorp account for merger costs? Provide the Examination Staff with a copy of its written policy related to mergers and acquisitions. **AUDIT KEY – C&P**
22. Please provide an aging of **Accounts Receivable from Associate Companies Account 146** as of March 31, 2003 that are sixty days or more overdue. Have there been any other receivables over 60 days overdue at any time during the March 31, 2003 fiscal year? Please explain the disposition of any overdue receivable in general and those identified in response to this item. **AUDIT KEY – C&P**
23. Related to **Accounts Receivable From Associate Companies**, for the fiscal year ended March 31, 2003, please list the type of convenience payments made for each company and describe how each convenience payment item listed meets the standard of a convenience payment under the Uniform System of Accounts. **AUDIT KEY – GA**
24. Please describe in detail the overheads that PacifiCorp applies and the method and order in which these overheads are applied? Provide examples how overhead expenses are actually added to an invoice, work order and labor costs. If a percentage is applied and “trued-up” to actual costs at year-end, explain (give at least two examples using fiscal year ended March 31, 2003) of how the overhead percentage is determined which includes a prorated share of the actual overhead expenses that were incurred by PacifiCorp during the fiscal year ended March 31, 2003. If a percentage is not used, explain how PacifiCorp determined the amount of overhead costs that were added to an invoice (give at least two examples using the fiscal year ended March 31, 2003). Provide journal and memorandum entries that were prepared monthly, by the department for overhead costs in these months that matches the two examples above. List each specific overhead and explain how it was allocated to associate companies? **AUDIT KEY – GA**
25. For the fiscal year ended March 31, 2003, please provide a schedule or report that shows the amounts that were **direct billed** (e.g., legal work performed for PacifiCorp rate case) and **allocated** to each associate company (e.g., legal work performed in reviewing executive compensation package) for each PacifiCorp department.
AUDIT KEY – GA
26. Please explain how PacifiCorp accounts for **Donations** – in its books and records and provide details by organization for any donations made for the period ended December 31, 2002 and 2001.
AUDIT KEY – GA
27. As reported in the PacifiCorp Form 1 for the years ended December 31, 2002 and 2001, PacifiCorp recorded \$24,497,102 and \$7,013,390, respectively, to **Account 921, Office Supplies and Expenses**. If any of the costs were allocated to associates companies, please provide a copy of the vendor/invoice listing and the method of allocation. From the vendor/invoice listing, the Examination Staff will select specific invoices for further examination. **AUDIT KEY – GA**
28. As reported in the PacifiCorp Form 1 for the years ended December 31, 2002 and 2001, PacifiCorp recorded \$45,778,089 and \$52,066,532, respectively, to **Account 923, Outside Services Employed**. If any of the costs were allocated to associates companies, please provide a copy of the vendor/invoice listing and the method of allocation. From the vendor/invoice listing, the Examination Staff will select specific invoices for further examination.

AUDIT KEY – A&HC

29. For **Employee Pensions and Benefits**, included in the PacifiCorp Form 1 for the period ended December 31, 2002 please explain the \$679 and why the prior period was a credit of \$2,334,451.
AUDIT KEY – A
30. As reported in the PacifiCorp Form 1 For the years ended December 31, 2002 and 2001, PacifiCorp recorded \$1,970,152 and \$4,021,479, respectively, to **Account 930.1, General Advertising Expenses**. If any of the costs were allocated to associates companies, please provide a copy of the vendor/invoice listing and the method of allocation. From the invoice listing, the Examination Staff will select specific invoices for further examination.
AUDIT KEY – A
31. As reported in the PacifiCorp Form 1 For the years ended December 31, 2002 and 2001, PacifiCorp recorded \$52,410,216 and \$24,172,211, respectively, to **Account 930.2, Miscellaneous General Expenses**. If any of the costs were allocated to associates companies, please provide a copy of the vendor/invoice listing and the method of allocation. From the invoice listing, the Examination Staff will select specific invoices for further examination.
AUDIT KEY – A
32. Please provide the detailed calculations (raw data for numerator and denominator including copies of source documents) for the specific allocation methods used during the fiscal years ended March 31, 2002 and 2003 by PacifiCorp. Please also identify if allocation methods are associated with particular service company departments. How often does PacifiCorp update raw data? **AUDIT KEY – A**
33. For the fiscal years ended March 31, 2002 and 2003, please provide an analysis of the intercompany accounts between PacifiCorp and Scottish Power. **AUDIT KEY – GA**

OTHER

34. Please provide a PacifiCorp corporate and organization chart . The corporate chart should include each subsidiary owned by PacifiCorp and the organization chart should list each department/division and its department/division head. **AUDIT KEY – GA**
35. Provide a listing of all computer reports that are available in your system. There may be some reports that will be relevant for the Examination Staff to request. **AUDIT KEY – GA**
36. Please provide a detailed copy of PacifiCorp Holdings, Inc. individual (not consolidated) 2002 financial statements with supporting details of income and expense for each item over \$25,000.
AUDIT KEY – HC
37. Provide copies of PacifiCorp Holdings, Inc. separate (all pages) and consolidated (page one only) Form 1120 and Form 7004 for 2001 and 2002 if applicable. **KEY – HC**
38. Please provide a current copy of PacifiCorp Holdings, Inc. Tax Allocation Agreement (do not give citations of where it can be found in previous submissions to the Commission).
AUDIT KEY – A
39. Provide a copy of the detail supporting PacifiCorp Holdings, Inc. allocation of its consolidated Federal income tax liability for each installment payment for its 2001 and 2002 consolidated income tax return including any payment made with Form 7004. Included in each worksheet should be a by company presentation of the tax payments made or benefits received for each installment and extension filing. **AUDIT KEY – A**